

Appendix 4G

Key to Disclosures Corporate Governance Council Principles and Recommendations

Name of entity:

SurfStitch Group Limited

ABN:

48 602 288 004

Financial year ended:

30 June 2016

Our corporate governance statement² for the above period above can be found at:³

☒ These pages of our annual report: Pages 15 to 27

☐ This URL on our website:

The Corporate Governance Statement is accurate and up to date as at 10 October 2016 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.

Date: 24 October 2016

Name and Director or Secretary authorising lodgement:

Karen Birner

Group Chief Financial Officer and Company Secretary

¹ Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

² "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

³ Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found. You can, if you wish, delete the option which is not applicable.

Throughout this form, where you are given two or more options to select, you can, if you wish, delete any option which is not applicable and just retain the option that is applicable. If you select an option that includes "OR" at the end of the selection and you delete the other options, you can also, if you wish, delete the "OR" at the end of the selection.

ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 15) ... and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management): <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 15)	-
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 17) <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20)	-
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 17)	-
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)	-

⁴ If you have followed all of the Council's recommendations in full for the whole of the period above, you can, if you wish, delete this column from the form and re-format it.

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
1.5	<p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p>	<p>... the fact that we have a diversity policy that complies with paragraph (a):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)</p> <p>... and a copy of our diversity policy or a summary of it:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)</p> <p>... and the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)</p> <p>... and the information referred to in paragraphs (c)(1) or (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)</p>	-
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>... the evaluation process referred to in paragraph (a):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 17)</p> <p>... and the information referred to in paragraph (b):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 17)</p>	-
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>... the evaluation process referred to in paragraph (a):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 17)</p> <p>... and the information referred to in paragraph (b):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 17)</p>	-

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE			
2.1	<p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	<p>[If the entity complies with paragraph (a):]</p> <p>... the fact that we have a nomination committee that complies with paragraphs (1) and (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 16)</p> <p>... and a copy of the charter of the committee:</p> <p><input checked="" type="checkbox"/> at www.surfstitchgroup.com/investors/downloads/</p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 28)</p>	-
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	<p>... our board skills matrix:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 19)</p>	-
2.3	<p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	<p>... the names of the directors considered by the board to be independent directors:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)</p>	-

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
2.4	A majority of the board of a listed entity should be independent directors.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)	-
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 18)	-
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 19)	-
PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY			
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	... our code of conduct or a summary of it: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 19) <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 19)	-

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING			
4.1	<p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>		<p>During the reporting period Surfstitch Group Limited followed all of the recommendation in full except 4.1(a)(1). The Audit, Risk and Compliance Committee ("ARCC") currently consists of two independent Non-Executive Directors with the Managing Director attending meetings by invitations. Non-compliance will be rectified in Financial Year 2017.</p> <p>The fact that we follow the recommendation of 4.1(a)(2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 16)</p> <p>A copy of the Audit, Risk and Compliance Committee Charter is available at: at www.surfstitchgroup.com/investors/downloads/</p> <p>The fact that we follow the recommendation of 4.1(a)(4):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, pages 3-4)</p> <p>The fact that we follow the recommendation of 4.1(a)(5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 28)</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20)	-
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20)	-
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE			
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	... our continuous disclosure compliance policy or a summary of it: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20) <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20)	-
PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	... information about us and our governance on our website: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20)	-
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 20)	-

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	... our policies and processes for facilitating and encouraging participation at meetings of security holders: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 21)	–
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 21)	–
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK			
7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	<p>... the fact that we have a committee or committees to oversee risk that comply with paragraphs (1) and (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 16)</p> <p>... and a copy of the charter of the committee:</p> <p><input checked="" type="checkbox"/> at www.surfstitchgroup.com/investors/downloads/</p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 28)</p>	–

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p>... the fact that board or a committee of the board reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 21)</p> <p>... and that such a review has taken place in the reporting period covered by this Appendix 4G:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 21)</p>	-
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>... the fact that we do not have an internal audit function and the processes we employ for evaluating and continually improving the effectiveness of our risk management and internal control processes:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 22)</p>	-
7.4	<p>A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>... whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 22)</p>	-

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ... ⁴
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY			
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>... the fact that we have a remuneration committee that complies with paragraphs (1) and (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 16)</p> <p>... and a copy of the charter of the committee:</p> <p><input checked="" type="checkbox"/> at www.surfstitchgroup.com/investors/downloads/</p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 28)</p>	–
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	<p>... separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 22)</p>	–
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>... our policy on this issue or a summary of it:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement (refer to Surfstitch Group Annual Report 2016, page 22). Refer also to Surfstitch Group Policy for Dealing in Securities available at: www.surfstitchgroup.com/investors/downloads/</p>	–



SurfStitchGroup

ANNUAL REPORT

2016

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LETTER FROM THE CHAIRMAN AND THE CEO

Dear Shareholder

The 2016 financial year was one of contrast and challenge for SurfStitch. The Company started its first full year as a public company with high expectations, ambitious growth targets and a strategic vision to create a global community of engaged consumers who could obtain a wide range of products and services to enhance an action sports (and especially surf) lifestyle. These objectives were not met and the business fell materially short of all plans and projections, incurring a loss after tax of \$154.7 million.

Since the end of the financial year, there have been significant changes at SurfStitch. Under a new leadership team, the Company has begun a reorganisation and restructure program designed to stem cash outflow, reduce operating losses and, most importantly, refocus the business on our core competency of online retail. The goal of this program in financial year 2017, is to deliver a leaner, higher margin business while at the same time maintaining rigorous cost controls and conserving cash.

We believe that, at its core, SurfStitch is a strong and credible business. It is the job of the management team to leverage this strength and to rebuild confidence in the business with all key stakeholders; our consumers, shareholders, suppliers, employees and the broader investment community.

We would like to express our sincere thanks to each and every hard working and enthusiastic team member in each of our regions. Everyone at SurfStitch, Swell and Surfdome has worked well together under difficult circumstances over the course of this year and it is gratifying to see them focused on, and committed to, the SurfStitch business.

To our shareholders and suppliers, thank you for your support during a tough period; it is greatly appreciated.

Yours sincerely



Sam Weiss
Chairman



Mike Sonand
Chief Executive Officer

BOARD OF DIRECTORS

Non-Executive Directors

SAMUEL WEISS

Independent Non-Executive Chairman

Appointment to the Board

1 July 2016

Appointment as Chairman

1 August 2016

Committee memberships

Audit, Risk and Compliance; Remuneration and Nomination

Qualifications

Graduate of Harvard University and the Columbia University School of Business Administration

Skills and experience

Sam has more than 30 years experience in technology, retail and eCommerce.

Directorships of listed entities (last three years)

Chairman of Altium Limited and 3P Learning Limited and a Non Executive Director of Ensogo Limited until 1 October 2016. Previously a director of Orotan Group Limited, Breville Group Limited and iProperty Limited.

STEPHEN GODDARD

Independent Non-Executive Director

Appointment to the Board

7 November 2014

Committee memberships

Audit, Risk and Compliance (Chairman); Remuneration and Nomination

Qualifications

Master of Science from the University of Melbourne

Skills and experience

Stephen has more than 25 years of retail experience, having previously worked for David Jones, Myer and Officeworks across a broad range of areas including finance, strategic planning, merchandise, stores, logistics, supply chain and property.

Directorships of listed entities (last three years)

Currently a non-executive director at JB Hi-Fi Limited. Previously a non-executive director at Pacific Brands Ltd.

JANE HUXLEY

Independent Non-Executive Director

Appointment to the Board

11 June 2015

Committee memberships

Remuneration and Nomination

Qualifications

Graduate Member of the Australian Institute of Company Directors Graduate Certificate in Change Management

Skills and experience

Jane is an experienced senior level executive with technology, media and telecommunications experience. Jane is currently the Managing Director of Pandora Internet Radio Australia. Prior to this Jane held a number of senior executive roles including General Manager – CEO at Fairfax Digital (Metro Media), Head of Mass Market at Vodafone; and various Director roles with Microsoft Corporation.

Directorships of listed entities (last three years)

Pandora Media Pty Ltd (subsidiary of Pandora Media, Inc; NYSE:P)

HOWARD MCDONALD

Former Independent Non-Executive Chairman

Appointment to the Board

13 October 2014

Resignation from the Board

1 August 2016

Committee memberships

Audit, Risk and Compliance; Remuneration and Nomination (Chairman)

Qualifications

Fellow of the Australian Institute of Company Directors Bachelor of Economics from Monash University

Skills and experience

Howard has significant retail and fashion experience with over 35 years in consumer goods industries. Howard was previously a Senior Executive at Pacific Dunlop Ltd, prior to joining Just Group as Managing Director for a period of 9 years. Howard was Chairman of Myer Ltd from August 2009 to October 2012, and a Director of Myer Ltd from November 2006.

Directorships of listed entities (last three years)

None.

Executive Directors

MICHAEL SONAND

**Chief Executive Officer
and Managing Director**

**Appointment to the
Board**

15 July 2016

**Committee
memberships**

None

Qualifications

Bachelor of Economics
from Monash University

Skills and experience

Mike has an extensive career in the retail sector both in Australia and internationally. He has held the position of COO at Charles Parsons Group, CEO at M Webster Holdings, Group General Manager Outerwear and Sport at Pacific Brands and various executive positions at Globe International and the Just Jeans Group.

**Directorships of listed
entities**

(last three years)

None

LEX PEDERSEN

**Director of Business
Development**

**Appointment to the
Board**

13 October 2014

**Committee
memberships**

None

Qualifications

Master of Arts from
Macquarie University

Skills and experience

Lex co-founded the SurfStitch business in 2007 and has since held several senior management roles in the Australian, European and North American operations.

Before co-founding SurfStitch, Lex had over 15 years of experience in surfwear retailing, having previously worked as the operations manager for Surfection, a surf retail chain in New South Wales.

**Directorships of listed
entities**

(last three years)

None

JUSTIN STONE

**Director of Global
Support**

**Appointment to the
Board**

16 December 2014

**Committee
memberships**

None

Qualifications

Bachelor of Science in
Economics from
University College
London

Skills and experience

Justin founded the SurfStitch business in 2006 and has held the Managing Director role since. Justin has over nine years experience in online action sports retailing.

**Directorships of listed
entities**

(last three years)

None

JUSTIN CAMERON

**Former Chief Executive
Officer and Former
Managing Director**

**Appointment to the
Board**

13 October 2014

**Cessation from the
Board**

9 March 2016

**Committee
memberships**

None

Qualifications

Bachelor of Commerce
from University of Sydney

Skills and experience

Justin co-founded the SurfStitch business in 2007 and until he ceased to be employed by the SurfStitch Group in March 2016, held several senior management roles in the Australian and European operations.

Before co-founding SurfStitch, Justin had over 15 years of experience in the finance industry having worked previously as Head of Equities and Research at Commonwealth Bank, and previous positions as Director of Telecommunications Research at Credit Suisse, ABN Amro and Merrill Lynch.

**Directorships of listed
entities**

(last three years)

None

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review (“OFR”) is provided to assist shareholders’ understanding of the performance of SurfStitch Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “SurfStitch Group”), and the factors underlying the Group results and financial position.

This review complements the financial statements and related notes on pages 49 to 119, and the announcement and investor presentation dated 30 August 2016.

This review covers the period from 1 July 2015 to 30 June 2016, and reflects the Group’s underlying performance, adjusted for asset impairment charges, items considered unusual or non-recurring in nature, and share-based payments.

Given the Group completed a corporate restructure and Initial Public Offering (“IPO”) on the Australian Securities Exchange on 16 December 2014, comparisons to the previous financial year are provided on a Pro Forma basis, prepared as presented in the FY15 Earnings Release and Investor Presentation as announced on the ASX platform on 27 August 2015.

All references to Statutory Results in this report refer to Statutory Results of continued operations.

SUMMARY OF FINANCIAL RESULTS

In FY16 underlying revenue increased \$36.2 million (18%) to \$235.6 million, underlying EBITDA decreased to a loss of \$18.8 million, and underlying profit before tax decreased to a loss of \$18.9 million.

Profitability and cash flow weakened as underlying gross margins fell to 40% from 46% in the prior period, and underlying expenses increased by \$27.9 million to \$111.8 million.

\$A millions	Underlying FY16	Pro Forma FY15	Change
Revenue	235.6	199.4	18%
Gross profit	93.0	91.6	2%
Gross margin	40%	46%	(644bps)
EBITDA	(18.8)	7.7	(345%)
PBT	(18.9)	4.1	(560%)

Further detail on the statutory and non-IFRS financial results are provided on page 9.

OPERATING REVIEW

Our Business Model

SurfStitch Group is an industry leading online global action sports and youth culture network with eCommerce and media capabilities, with major operations in Australia, UK, and North America.

We have a team of approximately 485 employees around the globe to carry out our core functions, including sales and marketing, product development, production, distribution, information technology and corporate activities.

Our business model is powered by our six eCommerce and media platforms representing a digital ecosystem capable of capturing and influencing all points of the surf and action sports lifestyle cycle.

eCOMMERCE PLATFORMS

- SurfStitch.com (Gold Coast, AUS)
- Surfdome.com (London, UK)
- SWELL.com (California, US)

MEDIA PLATFORMS

- Magicseaweed.com (Devon, UK)
- Stabmag.com (Bondi, AUS)
- Garageentertainment.com.au (Manly, AUS)

Each platform operates separately on a day-to-day basis, as each business unit pursues regional strategies. We are progressively moving toward a global model where each region shares infrastructure, resources and information including retail management, merchandise planning, digital marketing, business intelligence finance and technology.

This will enable the Group to continue scaling and benefit from operational efficiencies as numerous regional functions are consolidated where replication and duplication exists today.

Online Retail

SurfStitch Group offers leading Action Sports brands which appeal to teens and young adults that participate in Action Sports or identify with the Action Sports lifestyle.

The Group operates three eCommerce websites targeting three separate geographic regions, shipping to over 136 countries from fulfilment centres located in Australia, UK and US.

INVESTMENTS

In this past year we have made significant investment in the infrastructure we need to support our future growth.

To assist in managing growth in volume of product sold we expanded our UK and Australian warehouses, the UK by 25% and Australia by 40%, successfully improving productivity levels in both. In addition to allowing for growth, it enabled us to integrate the fulfilment operations for Surfdome and Magicseaweed into one location.

In our search for new ways to connect with our customers, we continued with our investment in media platforms including the acquisition of Garage Entertainment and Production ("Garage") (see Content Marketing section below).

BRANDS AND PRODUCT

We work closely with the world's leading brands to bring our customers exclusive or limited edition styles not generally available from other retailers. Our teams are also engaging with exciting, emerging new brands to deliver to our customers the freshest assortment of curated styles.

The merchandise team has been actively reducing both the number of brands, and breadth of product assortment available on our websites so that customers have a clearer, focused product proposition. We are well advanced in brand rationalisation from 700 to 350 brands.

A global vertical product team was established during the year to oversee the development of a global range of vertical men's and women's apparel and accessories. The launch of our first range in August 2016 will provide a significant boost to gross profit margins in coming months and years, as the vertical representation expands.

We expect that the vertical offer will eventually represent up to 20% of the Group's product offer.

Content Marketing – Destination Retailer

There is an increasing need to find new and relevant ways of attracting and engaging with potential customers while remaining relevant and authentic.

In November 2015, SurfStitch Group acquired Garage, adding to its stable of media assets, Magicseaweed and Stab Magazine, acquired in May 2015.

The ownership of the media assets is part of SurfStitch Group's strategy to become the global destination for action sports and youth lifestyle content and online retail.

The potential to leverage content from Garage, Magicseaweed and Stab within the SurfStitch Group and enhance customer engagement throughout our eCommerce platforms is significant and represents a digital ecosystem capable of capturing and influencing customers at all points of the surf and action sports lifestyle cycle.



Magicseaweed is the world's largest user generated surf content network, providing forecasting and live reporting of over 4,000 beaches across the globe.

Magicseaweed serves the key markets of North America, Europe and Australia, attracting over 1.5 million unique monthly users to its site, and over 1 million app downloads.



Stab is the world's leading online surf publishing network. Stab Magazine originated as a style and surf print magazine, and leveraged its strong relationships with brands and athletes to launch its successful digital platform.

Representing a credible voice with the millennial surf culture, talking directly with today's most challenging and sought after market demographic. Stab Magazine drives over 0.6 million unique monthly users to its site.

GARAGE

UNLOCK ADVENTURE

Garage Entertainment and Production (“Garage”) joined the SurfStitch Group in November 2015. Garage produces and digitally distributes premium action and extreme sports long form films and TV content. It has the largest library of action sports online with over 3,000 titles which it distributes through its own SVOD platform and dedicated TV channels.

In addition, Garage has released some of the most notable titles in action sports including the highly acclaimed Australian documentaries ‘Bra Boys’ and ‘You and Me’.

Surfhardware International

In December 2015, the SurfStitch Group acquired 100% of the equity of SHI Holdings Pty Limited and its subsidiaries (“Surf Hardware”), a global designer, marketer and distributor of innovative and high performance water board sports products and accessories.

After a strategic review, announced to the market on 15 July 2016, management concluded that Surf Hardware is a good business but does not represent a strategic fit with SurfStitch Group, and Deloitte Finance Advisory was appointed to advise and assist in assessing opportunities for divestment.



FINANCIAL REVIEW

Reporting Periods

FY15 comparative period non-IFRS financial presentations include pro forma adjustments which comprise SurfStitch, Surfdome, SWELL, Magicseaweed and Stab as if they were acquired as at 1 July 2014 with their earnings included in all periods shown within the dotted line below.

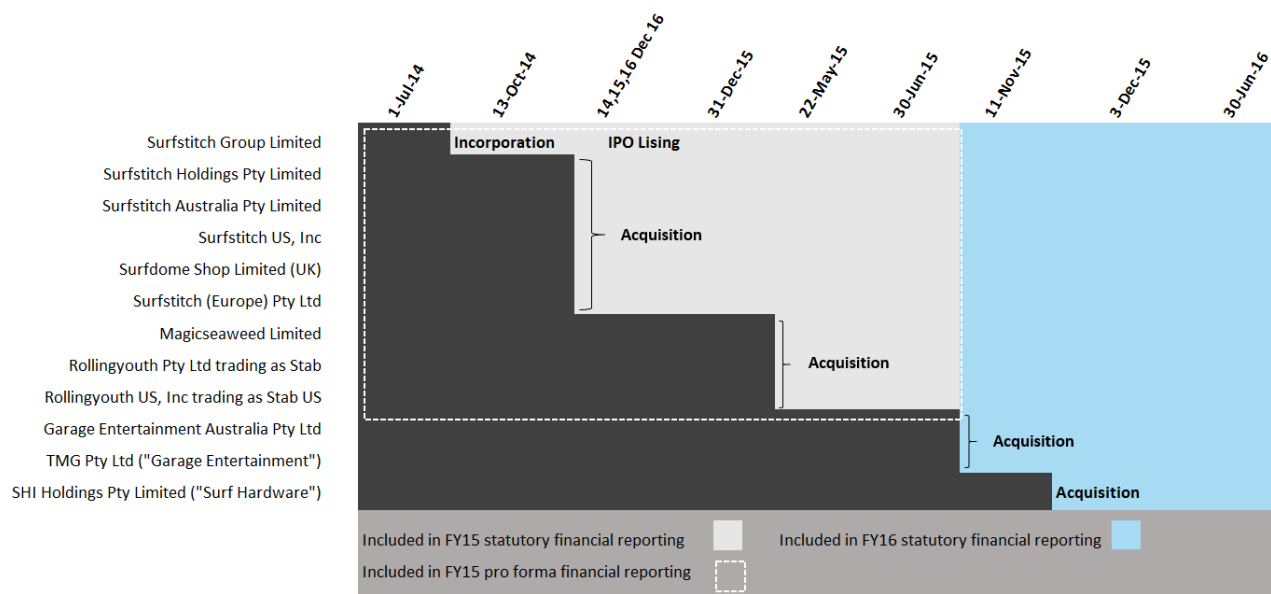
The section shaded dark grey represents the pre-acquisition period for each entity, and is not included in the FY15 or FY16 statutory financial statements of SurfStitch Group Limited.

Constant Currency Presentation

We evaluate our results of operations on both an as reported and a constant currency basis. The constant currency presentation, which is a non-IFRS measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our results of operations, consistent with how we evaluate our performance. We calculate constant currency amounts by converting our current-period local currency financial results using the prior-period exchange rates and comparing these adjusted amounts to the prior-period results.

Key Dates

October 2014	SurfStitch Group Limited ("SGL") was incorporated
December 2014	SGL lists on the Australian Securities Exchange ("ASX")
December 2014	SGL acquires SurfStitch Holdings Pty Limited ("SHPL") and its subsidiaries SurfStitch Australia, SurfStitch France, Swell US and Surfdome Shop UK.
April 2015	Discontinues operations of SurfStitch France
May 2015	Capital raising to fund acquisitions and provide working capital
May 2015	Acquisition of Magicseaweed and Stab Magazine
November 2015	Acquisition of Garage Entertainment
November 2015	Capital raising to fund acquisitions and provide working capital
December 2015	Acquisition of Surf Hardware



Summary of Non-IFRS Financial Results

\$A millions	Underlying FY16	Pro Forma FY15	Variance	Variance %
Revenue	235.6	199.4	36.2	18%
Gross profit	93.0	91.6	1.4	2%
Gross profit margin %	40%	46%	(644bps)	(14%)
EBITDA	(18.8)	7.7	(26.5)	(345%)
EBITDA margin %	(8%)	4%	(1,184bps)	(307%)

Reconciliation of Non-IFRS Financial Results to Statutory Results

A reconciliation of non-IFRS results (underlying and pro forma) to statutory results is set out below.

\$A millions	FY16	FY15
Underlying revenue	235.6	199.4
Pre-acquisition & discontinued trading	-	(101.5)
Content agreements	2.4	-
Statutory revenue	238.0	97.9
Underlying gross profit	93.0	91.6
Pre-acquisition & discontinued trading	-	(42.6)
Content agreements	2.4	-
Inventory impairment & rebates	(10.3)	(5.9)
Acquisition inventory fair value step up	(1.0)	(5.8)
Statutory gross profit	84.1	37.3
Underlying EBITDA	(18.8)	7.7
Pre-acquisition & discontinued trading	-	1.5
Content agreements	(2.4)	-
Inventory impairment & rebates	(10.3)	(3.4)
Acquisition inventory fair value step up	(1.0)	(5.7)
Goodwill, intangible and PPE impairment	(89.0)	(19.7)
Share-based payments	(10.4)	(5.9)
Acquisition related costs	(4.1)	(5.4)
IPO related costs	-	(2.9)
Restructure provisions	(2.0)	(1.3)
Special projects legal and professional fees	(1.1)	-
Statutory EBITDA	(139.1)	(35.1)

Earnings Performance

The Group experienced a deterioration in performance reporting an underlying EBITDA loss of \$18.8 million and a statutory EBITDA loss of \$139.1 million in FY16.

This decline in underlying earnings was the cumulative effect of:

- Increasingly challenging trading conditions, particularly in North America;
- A focus on increasing market share through sales at lower margins - resulting in a 644bps year on year decline in gross profit margin;
- An increase in expenses driven by a fast tracked global branding and eCommerce platform;
- A rapid period of expansion which involved significant management time in effecting the

relevant acquisitions (Surfdome and SWELL in December 2014, Stab and Magicseaweed in H2 of FY15 and Garage Entertainment and Surf Hardware in H1 of FY16) and three major capital raisings; and

- As yet unrealised synergies from new acquisitions.

Underlying Revenue

Underlying revenue increased by 18% on a reported basis in FY16, with newly acquired business units contributing 64% of the total revenue growth. Revenue growth for the existing business units was \$13.2 million or 7%, mostly the result of favourable fluctuations in the GBP to AUD exchange rate. Revenue for existing business units increased by 2% when evaluated on a constant currency basis.

\$A millions	As Reported					Constant Currency			
	Underlying FY16	Pro Forma FY15	Var	Var %	Contribution to growth	Underlying FY16	Var	Var %	Contribution to growth
Existing operations	212.6	199.4	13.2	7%	36%	203.4	4.0	2%	15%
New acquisitions [^]	23.0	-	23.0	n/a	64%	22.2	22.2	n/a	85%
Total revenue	235.6	199.4	36.2	18%		225.6	26.2	13%	

[^] acquired during the FY16 financial year

Underlying Gross Profit

Underlying gross profit increased by 2% on a reported basis in FY16, with newly acquired business units contributing all of the gross profit growth. Gross profit for existing business units declined by \$8.1 million or 9%. When evaluated on a constant currency basis, total gross profit

decreased by \$2.4 million or 3%. A challenging retail landscape coupled with the business' deep discounting to drive revenue growth resulted in gross profit margins declining from 46% to 40% during the financial year.

\$A millions	As Reported				Constant Currency		
	Underlying FY16	Pro Forma FY15	Var	Var %	Underlying FY16	Var	Var %
Existing operations	83.5	91.6	(8.1)	(9%)	80.0	(11.6)	(13%)
New acquisitions [^]	9.5	-	9.5	n/a	9.2	9.2	n/a
Total gross profit	93.0	91.6	1.4	2%	89.2	(2.4)	(3%)
Gross profit margin	40%	46%	(6%)	(14%)	40%	(6%)	(14%)

[^] acquired during the FY16 financial year

Underlying Operating Expenses

Underlying operating expenses increased in FY16 by 33% on a reported basis, with newly acquired business units contributing 29% of the total increase to expenses. Operating expenses for existing business units increased by \$19.7 million or 24%. When evaluated on a constant currency basis, operating expenses for existing business units increased by \$13.2 million or 16%.

\$A millions	As Reported				Constant Currency		
	Underlying FY16	Pro Forma FY15	Var	Var %	Underlying FY16	Var	Var %
Existing operations	103.6	83.9	(19.7)	(24%)	97.1	(13.2)	(16%)
New acquisitions [^]	8.2	-	(8.2)	n/a	7.8	(7.8)	n/a
Total expenses	111.8	83.9	(27.9)	(33%)	104.9	(21.0)	(25%)
% of revenue	47%	42%	(5%)	(13%)	47%	(5%)	(13%)

[^] acquired during the FY16 financial year

The \$19.7 million increase to underlying operating expense of existing business units can be summarised as:

\$A millions	\$	% *
Impacts of foreign exchange currency fluctuations on reported currency	6.5	33%
Advertising & promotion 170bp decline as % of revenue	3.7	19%
Rebranding & platform migration projects	3.3	17%
Full year impact of head office & corporate costs	2.3	12%
Variable cost increases in line with revenue increases	2.3	11%
Rent	1.6	8%
Total increase to operating costs	19.7	100%

* as a % of total increase

Acquisitions

On 12 November 2015, the SurfStitch Group acquired Garage Entertainment Aust Pty Ltd and TMG Media Pty Ltd (collectively "Garage") for a total consideration of A\$15 million (a combination of cash and deferred shares).

On 3 December 2015, the SurfStitch Group acquired 100% of the shares of SHI Holdings Pty Limited and its subsidiaries (collectively "Surf Hardware") at an Enterprise Value of A\$23.7 million (100% in cash).

Capital Raisings

On 26 November 2015, SurfStitch Group Limited completed a \$50.0 million (\$48.5 million net of transaction costs) institutional placement through the issue of 25 million ordinary shares at \$2.00 per share. Proceeds from the placement were used to fund the acquisitions of Surf Hardware and Garage, related acquisition transaction costs, repayment of certain debts of Surf Hardware, as well as to provide the SurfStitch Group additional funds to be used for working capital and general corporate purposes.

Underlying Cash Flows Used By Operations

The Group's net cash outflow was \$36.3 million in FY16, excluding the net capital raising of \$48.5 million in November 2016, and the funding of \$30.8 million in acquisition related payments over the year. The opening cash balance was \$39.7 million and the closing cash balance at 30 June 2016 was \$21.4 million. Since May 2016 management has implemented strict expense, capital expenditure and working capital disciplines to contain cash usage, and based on our latest budgets and forecasts, cash balances will remain positive.

Statement of Financial Position

NET ASSETS

The Group has no external debt at the Group or subsidiary levels and is in a net cash position as of 30 June 2016.

The Group's net asset position has declined when compared to 30 June 2015, mainly due to the impairment and provision charges discussed below.

IMPAIRMENTS AND PROVISIONS

As part of the strategic review announced on 15 July 2016, management undertook a detailed assessment of the value of assets in the Statement of Financial Position. A total of \$99.3 million was recorded in asset impairment write-downs and inventory obsolescence provisions, made up of:

\$A millions	Impairment
Goodwill	54.6
Intangibles	33.6
Property, Plant & Equipment	0.8
Aged inventory	10.3
Total	99.3

DIVIDENDS

The Company has not declared a dividend with respect to the financial year ended 30 June 2016 nor does it anticipate a dividend will be paid in the financial year ended 30 June 2017.

FX IMPACT

SurfStitch Group is a global business with operations in the USA, Europe and Australia. While our business model serves as a natural FX hedge allowing us to minimise realised foreign exchange gains, we report in Australian dollars. FY16 FX movements have been most favourable to the UK business units as discussed in preceding sections.

FX rate to AUD	FY15	FY16
USD:AUD	1.2117	1.3579
GBP:AUD	1.8859	2.0073

Addressing FY16 Performance

Since the appointment of Mike Sonand as CEO a number of important initiatives have been undertaken to address the performance issues experienced by the businesses:

- Executive restructure to ensure functional alignment across all regions;
- Media assets centralised under one executive to coordinate strategy and enhance accountability;
- High cost/high risk activities deferred or cancelled, unless operationally critical;
- Restructure of North American operations – exit of 35 roles, but maintaining strong local presence through global support from Australia and UK;
- Surfdom headcount reduced by 25, representing 25% of UK workforce;
- Accelerated brand rationalisation;
- Review of all expenditure; and
- Aggressive action to reduce inventory.

THE OUTCOMES TO DATE HAVE BEEN

- Cash balance stabilised;
- More disciplined team and aligned culture;
- Rapid reduction in forecast spending;
- Brands on offer reduced from 700+ to 350+;
- Improved merchandise assortment; and
- Material inventory reductions executed in accordance with new retail plan.

NEXT STEPS

In the near term there are three areas being addressed.

Stakeholder Management

Firstly, it is rebuilding confidence with all stakeholders. All are equally important and all have a part to play in the future success of SurfStitch Group, whether they are the:

- a. SurfStitch global team
- b. Suppliers
- c. Shareholders
- d. Investment community

Cash and Working Capital Management Improvements

Secondly, the stabilisation of the business must continue with the rebuilding of cash on hand being the major priority of management.

Retail First

Thirdly, we are refocusing our business activity. Foremost, we are retailers and our energy, resources and time must be directed not only just to sell product, but we must make sure we are exceptional in what we do. Retailing is a tough and competitive business, requiring strong trading, marketing and merchandising skills. We have been both building that skill set and also ensuring we align our team's goals to high performance retail metrics, including sales, margin and inventory productivity targets.

Achieving all three of the above – rebuilding confidence, stabilising and refocusing, helps place the business on a sound footing, but crucial to the ongoing success of the business will be our focus on developing the right customer experience. Whether shopping or content sharing, our customers must have a rewarding online journey where we offer the most desirable brands, relevant products and compelling stories in surf, fashion and action sports.

Strategies to Drive Growth

To create sustainable long term value for shareholders, the business must grow and deliver consistently above market return on funds employed. All activity and initiatives must have this goal in mind.

STRATEGIC FOCUS FOR FY17 WILL BE:

- 1 Achieve brand and product leadership by providing a relevant, on trend, inspirational, and differentiated offering in all our categories, while improving inventory productivity and supply chain management.
- 2 Deliver exceptional customer experience to drive traffic, improve customer retention, return visits and increase conversion.
- 3 Improve the use of media assets – integrate our media assets and their content on our platforms to engage and retain existing customers and drive capture of new and potential customers in a way not available to our competitors.

Business Risks

There a number of factors, both specific to the Group and generic to the industry, which may threaten the future operating and financial performance of the Group. The specific material business risks faced by the Group, and how the Group manages these risks, are set out below:

CONSUMER DISCRETIONARY SPENDING

Operating in the retail industry, the Group relies on consumer discretionary spend and consumer sentiment. Adverse changes to the general economic and retail environment can impact financial results. We mitigate this risk by keeping abreast of global economic conditions, together with consumer and industry trends, and managing inventory and expenses in line with changes in the environment.

COMPETITION AND MARGIN RISK

The highly competitive nature of the retail market combined with new entrants to the market do impact the operating margins and subsequently financial results of the Group. This is mitigated by carefully managing intake margins, working with key long term suppliers and managing our brand development. The Group closely monitors price against a range of retailers and brand owners to ensure it maintains its competitive position within its sector.

FOREIGN EXCHANGE EXPOSURE

The Group relies significantly on imported products which are paid for primarily in US Dollars and as a result has a transactional FX exposure. A stronger US Dollar will generally have a negative effect on the Group's reported earnings.

Depending on the timing of expected cash flows, the Group enters into forward exchange contracts to mitigate certain foreign exchange exposures and to introduce some cost certainty for planning purposes.

The Group does, in part, have a natural hedge to these transactional exposures given that it is generating US Dollars, UK Pound and EUR revenues from its offshore operations.

The Group also has a translational exposure as its international earnings are translated into Australian Dollars for reporting purposes.

CASH

The Company has sufficient cash to pay its debts as and when due based on current management budgets and financial forecasts. Due to the uncertainties pertaining to consumer discretionary spending and a competitive market place the business is very clearly focused on mitigating the risk of a cash shortfall. The Company is focused on stabilising cash reserves.

LEGAL PROCEEDINGS

Refer to the Directors Report for further details.

Risk Management

The Directors are confident that the Group manages all of its material risk effectively. Risks that could have a material impact on the Group's business, such as financial, privacy, cyber security, technology supply chain, brand and people are subject to a range of mitigation arrangements including the maintenance of Board committees, detailed and regular budgetary, financial and management reporting, established organisational structures, procedures, manuals, policies, audits (including internal and external, occupational health and safety) comprehensive insurance programs and the retention of specialised staff and external advisors.

The Directors will complete a full review of the Group's risk management framework during the 2017 Financial Year with recommendations for mitigation strategies to be implemented by year end.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the key aspects of SurfStitch Group's governance framework and main governance practices. The charters, policies, and procedures are regularly reviewed and updated to comply with law and best practice. These charters and policies can be viewed on SurfStitch's investor website located at www.surfstitchgroup.com/investors.

SurfStitch is committed to applying the ASX Corporate Governance Council's Corporate Governance Principles (3rd Edition) and throughout the period 1 July 2015 to 30 June 2016 (the "Reporting Period"), it considers that it has complied with the ASX Principles and Recommendations (CGPR).

This Corporate Governance Statement is current as at 10 October 2016 and has been approved by the Board.

Principle 1 – Lay Solid Foundations for Management and Oversight

ROLE AND RESPONSIBILITIES OF THE BOARD

The Board of Directors is primarily responsible for setting the strategic direction and corporate governance of the Group.

The Board has adopted a Board Charter which sets out the responsibilities of the Board and its structure and governance requirements. Under the Board Charter the Board has the following responsibilities:

- selecting, appointing, evaluating the performance of, and determining remuneration of, the CEO;
- overseeing the appointment and removal of, and the succession planning for, the CFO;
- contributing to, and approving management development of corporate strategy, including setting performance objectives and approving operating budgets;
- reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance. This includes reviewing procedures to identify the main risks associated with the Company's businesses and the implementation of appropriate systems to manage these risks;
- monitoring corporate performance and implementation of strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- developing and reviewing corporate governance principles and policies; and
- performing such other functions as are prescribed by law or are assigned to the Board.

MATTERS SPECIFICALLY RESERVED FOR THE BOARD OR ITS COMMITTEES INCLUDE:

- appointment of a chair;
- appointment and removal of the CEO;
- appointment of directors to fill a vacancy or as additional Director;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling of meetings of shareholders; and
- any other specific matters nominated by the Board from time to time.

ADMINISTRATION OF THE BOARD

The Board holds regular meetings, and has diarised a minimum of 11 meetings a year, with additional unscheduled meetings as frequently as may be required to deal with other matters. In addition, the Non-executive Directors meet at least once a year in the absence of the CEO and management, and at such other times as they may determine; the Independent Directors may also meet on their own as they determine appropriate. Details of the current Directors, their qualifications, skills and experience, are set out on pages 3 and 4. Details of their attendance at Board and Committee meetings during the year, are set out on page 28.

INDEPENDENT LEGAL ADVICE

To support proper discharge of duties, the Board collectively, and each Director individually, has the right to seek independent professional advice. This has been captured clearly in each Director's letter of appointment.

Principle 1 – Lay Solid Foundations for Management and Oversight (continued)

COMMITTEES OF THE BOARD

While at all times the Board maintains full responsibility for guiding and monitoring SurfStitch, it has delegated certain responsibilities and functions to Committees and management.

The Board has established the following Committees to assist it in discharging its functions:

- Audit, Risk and Compliance Committee ("ARCC"); and
- Remuneration and Nomination Committee ("RNC").

Each Committee was appointed by SurfStitch and each of their charters adopted, on 27 November 2014.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The ARCC is responsible for assisting the Board in carrying out its accounting, auditing, financial reporting and risk management responsibilities, including:

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

The Board, at least once in each year, reviews the membership and Charter of the Committee, to determine its adequacy for current circumstances. The Committee may make recommendations to the Board in relation to the Committee's membership, responsibilities, functions or otherwise. The terms of the Charter of the Committee were considered during Financial Year 2016 and no changes were made. The next review of the Charter will be conducted during Financial Year 2017.

The ARCC currently consists of two independent Non-executive Directors with the Managing Director attending meetings by invitation.

The ARCC is Chaired by an independent Director who is not the Chair of the Board. The ARCC Charter requires that the Committee be comprised of Non-executive Directors only and have a minimum of three members. In order to be compliant with the Charter, a third independent Non-executive Director will be appointed to the Committee during Financial Year 2017.

The Committee meets as often as its members deem necessary in order to fulfil their role. However, it is intended that the Committee will normally meet at least three times a year.

A copy of the ARCC Charter is available at www.surfstitchgroup.com/investors.

REMUNERATION AND NOMINATION COMMITTEE

SurfStitch has established a RNC to assist the Board, and make recommendations on matters relating to succession planning, nomination of the Directors and CEO, and remuneration of the Directors, CEO and executives that report to the CEO. The RNC consists of three independent Non-executive Directors, with an independent Chair. The RNC meets as often as its members deem necessary in order to fulfil their role. However, it is intended that the RNC will meet at least twice a year.

A copy of the RNC Charter is available at www.surfstitchgroup.com/investors.

Factors to be considered when reviewing a potential candidate for Board appointment, include without limitation:

- the skills, experience, expertise and personal qualities that will best complement Board effectiveness;
- the existing composition of the Board, having regard to the factors outlined in the Diversity and Inclusion Policy and the objective of achieving a Board comprising Directors from a diverse range of backgrounds;
- the capability of the candidate to devote the necessary time and commitment to the role; and
- potential conflicts of interest, and independence.

Principle 1 – Lay Solid Foundations for Management and Oversight (continued)

REMUNERATION AND NOMINATION COMMITTEE (CONTINUED)

External search organisations may be engaged (as appropriate) to assist the Board to identify potential Director candidates. In respect of the current Directors, no material adverse information was revealed by checks performed in respect of each Director, nor was any matter identified that might influence a Director's ability to act in the best interests of the Company and its shareholders.

The Board selection process includes:

- Conducting appropriate checks before putting forward to shareholders a candidate for election, as a Director, or their subsequent appointment;
- Consultation with all Directors, with any recommendations from the Remuneration and Nomination Committee; and
- Upon election/approval, an offer of a Board appointment to be made by the Chair and confirmed by a letter of appointment in the standard format approved by the Board or the Remuneration and Nomination Committee from time to time.

In accordance with the Group's Constitution, no Director, except the CEO, shall hold office without re-election beyond the third Annual General Meeting at which the Director was last elected or re-elected. Directors available for re-election at a General Meeting are reviewed by the RNC after consultation with the Board.

AGREEMENTS WITH DIRECTORS AND SENIOR EXECUTIVES

Non-executive Directors are engaged through a letter of appointment which sets out the Director's roles and responsibilities and SurfStitch's expectations, including in respect of the requirement to comply with Company policies and SurfStitch's Code of Conduct. The letter also addresses Non-executive Directors' indemnity and insurance arrangements, ongoing rights to access company information and confidentiality obligations that apply on an ongoing basis. SurfStitch enters into service contracts with all executives, which sets out their individual roles and responsibilities, as well as their key performance indicators and corporate

obligations in respect of adherence to Company policy and SurfStitch Code of Conduct.

BOARD, COMMITTEE AND DIRECTOR PERFORMANCE

The RNC is tasked with assisting the Board, as required, in relation to the performance evaluation of the Board, its Committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies.

Where appropriate to facilitate the performance evaluation process, assistance may be obtained from third party advisers.

No performance review of the Board was conducted in Financial Year 2016.

The next performance review of the Board will be conducted during Financial Year 2017.

PERFORMANCE AND TRAINING OF SENIOR MANAGEMENT

The Board sets KPIs for the CEO and formally evaluates the achievement of those objectives on an annual basis.

The Senior Management's KPIs are set annually. They are recommended by the CEO to the Board. The CEO conducts at least yearly one-on-one performance evaluations with individual Senior Management members to assess whether they have met their KPIs set in the preceding year. The next performance evaluations and assessment of KPIs will take place during Financial Year 2017.

SurfStitch has procedures in place to ensure that the executive is able to participate fully and actively in Senior Management decision-making at the earliest opportunity, including:

- Induction of core policies and procedures, located on SurfStitch common drive for ease of reference; and
- A policy, to promote good governance practices for payments and commitments of SurfStitch.

Principle 1 – Lay Solid Foundations for Management and Oversight (continued)

DIVERSITY AND INCLUSION

On 27 November 2014, the Board formally approved the Diversity Policy in order to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative Senior Management and leadership structure.

The Diversity Policy drives SurfStitch's ability to attract, retain, motivate and develop the best talent to create an engaged workforce to deliver the highest quality services to its customers and continue to grow the business. The objectives of the Diversity Policy and the Company's progress in achieving those objectives, will be further developed during Financial Year 2017.

A copy of the Company's Diversity Policy is available at www.surfstitchgroup.com/investors

CORE GENDER DIVERSITY STATISTICS

In accordance with the Workplace Gender Equality Act 2012, SurfStitch has lodged its annual compliance report with the Workplace Gender Equality Agency. A copy of this report is available at www.surfstitchgroup.com/investors.

	% Female
Board composition	17%
Non-executive composition	33%
Senior executives *	25%
Other	51%
All employees	51%

* senior direct reports of the Managing Director

COMPANY SECRETARY

The Board has appointed Karen Birner as the Company Secretary. The Company Secretary is responsible for coordination of all Board business, including agenda, board papers, minutes, communication with regulatory bodies and ASX, and all statutory and other filings. The Company Secretary is accountable to the Board, through the Chair, on all matters to do with proper functioning of the Board. All Directors have direct access to the Company Secretary.

Principle 2 – Structure the Board to Add Value

Responsibility for the composition and succession planning of the Board rests with the Directors.

REMUNERATION AND NOMINATION COMMITTEE

SurfStitch has established an RNC to assist the Board, and make recommendations on matters relating to succession planning, nomination of the Directors and CEO, and remuneration of the Directors, CEO and executives that report to the CEO.

COMPOSITION OF THE BOARD

The SurfStitch board currently comprises of six Directors. The names of current Directors and the date they were appointed to the Board are set out on page 3 and 4.

INDEPENDENCE OF DIRECTORS

The Board has adopted guidelines in the Board Charter to assist in assessing the independence of Directors. These guidelines are consistent with the factors relevant to assessing the independence of a director set out in the ASX Principles and Recommendations. The Board regularly reviews the independence of each Non-executive Director in light of information relevant to this assessment (as disclosed by each Non-executive Director to the Board).

Of the Board:

- Three Directors are considered by the Board to be Independent Non-executive Directors: Sam Weiss (Chairman of the Board), Stephen Goddard and Jane Huxley; and
- Three Directors, Mike Sonand, Lex Pedersen and Justin Stone are Executive Directors.

SurfStitch notes half of the Board members are considered to be independent. In light of this, the Board has confirmed that the Independent Non-executive Chairman has a casting vote. The Chairman is an Independent Non-executive Director and there is a clear division of responsibility between the Chairman and the Chief Executive Officer.

Principle 2 – Structure the Board to Add Value (continued)

INDEPENDENCE OF DIRECTORS (CONTINUED)

The Board does not believe that it should establish an arbitrary limit on tenure. While tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight in SurfStitch and its operation and an increasing contribution to the Board as a whole.

INDUCTION AND CONTINUING EDUCATION OF DIRECTORS

SurfStitch has resources to induct new Directors and a continuing development program for Directors to ensure they are equipped with opportunities to develop and maintain the skills and knowledge necessary to perform their role effectively:

- All induction materials are made available to each Director on appointment, confirmed in writing in their letters of appointment, and can be accessed by the Company Secretary at any time; and
- A training and continuing education program will be built into the Board agenda over the calendar year.

BOARD SKILLS MATRIX

The Board seeks to ensure that its membership includes an appropriate balance of skills, diversity, experience and independence in order to enhance Board performance and maximise value for shareholders.

It is not expected that all Directors will have skills and experience in all areas. Rather, taken together the Board as a whole needs to have the skills and experience identified as being necessary. The Board considers that this is the case. The table below sets out the skills and experience represented on the Board.

Skill / Quality

Retail industry

Digital technology strategy and governance

Business strategy and executive experience

Corporate finance and capital management

Human resources, people and culture

Corporate governance, compliance, risk and management

Content marketing strategy

International and new markets strategy

Principle 3 – Act Ethically and Responsibly

CODE OF CONDUCT

SurfStitch is committed to a high level of integrity and ethical standards in all business practices. Employees must conduct themselves in a manner consistent with current community and Company standards and in compliance with all relevant legislation. Accordingly, on the 27 November 2014, the Board adopted a formal Code of Conduct, which outlines how SurfStitch expects its representatives to behave and conduct business in the workplace. All employees (including temporary employees and contractors) and Directors must comply with the Code of Conduct.

The Code of Conduct is designed to:

- Provide a benchmark for professional behaviour throughout SurfStitch;
- Support SurfStitch's business reputation and corporate image within the community; and
- Make Directors and employees aware of the consequences if they breach the Code.

SurfStitch regularly monitors and tests the policies under the Code to ensure that commitments remain relevant, effective and consistent with stakeholders' expectations. The Code of Conduct is available on SurfStitch's website at www.surfstitchgroup.com/investors.

Principle 4 – Safeguard Integrity in Financial Reporting

AUDIT, RISK AND COMPLIANCE COMMITTEE

SurfStitch has established an ARCC to assist the Board, and make recommendations on matters relating to its accounting, auditing and financial reporting and risk management responsibilities.

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER DECLARATION

Before the Board approves SurfStitch's half-year and full-year financial reports, the CEO and CFO provide the Board with declarations that, in their opinion, the financial records of the Group have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Board received a declaration of this kind in respect of the period 1 July 2015 to 30 June 2016, from the CEO and the CFO prior to approving the 30 June 2016 results.

AUDITOR AT ANNUAL GENERAL MEETINGS

SurfStitch's external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The external auditor will also be allowed a reasonable opportunity to answer written questions submitted by shareholders.

Principle 5 – Make Timely and Balanced Disclosure

CONTINUOUS DISCLOSURE

On 27 November 2014, SurfStitch adopted a Continuous Disclosure Policy, which establishes procedures to ensure compliance with its obligations under the Corporations Act and ASX Listing Rules to disclose material price-sensitive information to the market in a timely manner.

The Board has appointed the Disclosure Committee, which is responsible for compliance with SurfStitch's continuous disclosure obligation. The Disclosure Committee comprises the Chairman and the CEO (or their delegates).

Information is communicated to shareholders through the lodgement of all relevant financial information and other information with ASX, with continuous disclosure announcements also made available on SurfStitch's website.

The Continuous Disclosure Policy is available on SurfStitch's website at www.surfstitchgroup.com/investors.

Principle 6 – Respect Rights of Security Holders

INFORMATION ABOUT SURFSTITCH

SurfStitch aims to ensure that shareholders are kept informed of all major developments affecting the state of affairs of SurfStitch. Additionally, SurfStitch recognises that potential investors and other interested stakeholders may wish to obtain information about SurfStitch from time to time.

An overview of SurfStitch's profile, businesses and corporate governance framework is available at SurfStitch's website www.surfstitch.com/investors.

INVESTOR RELATIONS

SurfStitch communicates important information regularly to shareholders and other stakeholders through a range of forums and publications including:

- **Notices of meetings:** The full text of all notices of meetings and explanatory material are available on its website; SurfStitch encourages shareholders to provide email addresses so that notices of meeting and explanatory material can be sent to shareholders via email;
- **Annual General Meeting:** SurfStitch encourages attendance and full participation of shareholders at its Annual General Meeting each year and a full transcript of the Chairman's and the CEO's speeches are published.
Shareholders are encouraged to lodge proxies electronically in accordance with instructions on the proxy form;

Principle 6 – Respect Rights of Security Holders (continued)

INVESTOR RELATIONS (CONTINUED)

- **Annual Report:** SurfStitch's Annual Report is available on its website and contains important information about SurfStitch's activities and results for the previous financial year. Shareholders can elect to receive SurfStitch's Annual Report as an electronic copy or in hard copy through the mail;
- **Announcements lodged with the Australian Securities Exchange:** All ASX announcements made to the market, including annual and half year financial results, are posted on SurfStitch's website as soon as they have been released by ASX;
- **Media Releases:** Copies of all media releases made by SurfStitch are posted on SurfStitch's website;
- **Presentations:** Copies of all investor presentations made to analysts and media briefings are posted on SurfStitch's website, and where appropriate, SurfStitch will use web-casting or teleconferencing of these presentations and briefings; and
- **Investor Relations:** SurfStitch has an investor relations program to facilitate two-way communication with investors, incorporating a telephone helpline facility and an online email inquiry service to assist shareholders with any queries. Shareholders are given the option of receiving communications from SurfStitch, and sending communications to SurfStitch, electronically.

Principle 7 – Recognise and Manage Risk

AUDIT, RISK AND COMPLIANCE COMMITTEE

Under the Board Charter one of the key responsibilities and functions of the Board is reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance, including reviewing procedures to identify the main risks associated with SurfStitch's businesses and the implementation of appropriate systems to manage these risks.

The Board has established the ARCC to assist it in discharging its functions, to review SurfStitch's risk management framework and procedures and recommending improvements to the Board to enhance the effectiveness of the risk management framework.

The ARCC's primary roles with respect to risk management and compliance are to review and report to the Board that:

- The ARCC has, at least annually, reviewed SurfStitch's risk management framework to satisfy itself that it continues to be sound and effectively identifies all areas of potential risk;
- Adequate policies and processes have been designed and implemented to manage identified risks;
- Reviewing SurfStitch's level of insurance;
- Overseeing tax compliance and tax risk management;
- At least annually an audit has been undertaken to test the adequacy of and compliance with prescribed policies; and
- Proper remedial action is undertaken to redress areas of weakness.

RISK MANAGEMENT FRAMEWORK

Risk management is viewed by SurfStitch as integral to its objective of creating and maintaining shareholder value. SurfStitch is committed to embedding risk management practices through all levels of the organisation to support the achievement of business objectives and to fulfil its corporate governance obligations.

SurfStitch has a Risk Management Policy and a documented risk assessment process, scheduled for review at least annually by management and the ARCC.

The ARCC has reviewed SurfStitch's risk management framework at a high level and reported to the Board that it is satisfied that the risk management framework is sound and effectively identifies all areas of potential risk. The ARCC will continue to review SurfStitch's risk management framework during Financial Year 2017.

Principle 7 – Recognise and Manage Risk (continued)

INTERNAL AUDIT

The ARCC is responsible for overseeing processes to ensure there is an adequate system of internal control, reviewing the internal control systems and the operational effectiveness of the policies and procedures related to risk and control, monitoring break downs of internal controls, and reviewing the effectiveness of SurfStitch's internal control framework.

Given the size of the company, SurfStitch does not have an internal audit function. However it is noted this is reviewed on an annual basis.

Instead, the shared services function, working with external advisors as appropriate, oversees the adequacy and effectiveness of SurfStitch's systems for risk management, internal control and governance, and provides recommendations to improve the efficiency and effectiveness of these systems and processes.

The CFO provides the ARCC with information relevant to assist the Committee discharge its roles and responsibilities.

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

SurfStitch identifies and reports against material economic, environmental or social sustainability risks as part of its formal risk review process. Together with the ARCC, SurfStitch is formalising its reporting process for material economic, environmental or social sustainability risks so it can adequately communicate how it manages and intends to manage identified risks.

Principle 8 – Remunerate Rairly and Responsibly

REMUNERATION AND NOMINATION COMMITTEE

SurfStitch has established a RNC which is responsible for matters relating to the remuneration of the Directors, CEO and other Senior Management.

POLICIES IN RELATION TO REMUNERATION OF NON-EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

To ensure the independence of Directors, Directors are paid fees but are not invited to participate in SurfStitch's performance-based plans. Senior Management are generally entitled to a remuneration package that contains a mix of base salary and performance-related incentives.

Further details of remuneration policy for Non-executive Directors and Senior Management are set out in the Remuneration Report.

POLICIES FOR DEALING IN SECURITIES

On 27 November 2014, SurfStitch adopted a Policy for Dealing in Securities, which is intended to explain the types of conduct in relation to dealings in securities that are prohibited under the Corporations Act 2001 (Cth) and establish best practice procedure for buying and selling securities that protects the Company, the Directors and employees against the misuse of unpublished information that could materially affect the value of securities. The Board considers that compliance with the Policy is essential to ensure that the highest standards of conduct are being met by all Directors and employees.

The Policy applies to all Directors and officers of the Group, Senior Management and employees of the Group, and connected persons of these parties, and sets out when participants are permitted to enter into transactions, and when they are not.

The Policy for Dealing in Securities is available on SurfStitch's website at www.surfstitchgroup.com/investors.

Satisfaction of ASX CGS Principles and Recommendations

The extent SurfStitch's corporate governance practices satisfy the ASX CGC Principles and Recommendations are detailed in the tables that follow.

Principle 1 – Lay Solid Foundations for Management and Oversight

Recommendation	Comply	Reference
1.1 A listed entity should disclose:		
(a) The respective roles and responsibilities of its board and management; and	Yes	Page 15
(b) Those matters expressly reserved to the board and those delegated to management	Yes	Page 15
1.2 A listed entity should:		
(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director;	Yes	Page 17
(b) Provide security holders with all material information in its possession in relation to a decision on whether or not to elect or re-elect a director.	Yes	Page 20
1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Yes	Page 17
1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair; on all matters to do with proper functioning of the board.	Yes	Page 18
1.5 A listed entity should:		
(a) Have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;	Yes	Page 18
(b) Disclose that policy or a summary of it; and	Yes	Page 18
(c) Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:	Yes	Page 18
(1) The respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined 'senior' executive' for these purposes); or	N/a	
(2) If the entity is a 'relevant employer' under the Workplace Gender Equality Act, the entity's most recent 'Gender Equality Indicators', as defined and published under that Act.	Yes	Page 18
1.6 A listed entity should:		
(a) Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and	Yes	Page 17
(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process	Yes	Page 17
1.7 A listed entity should:		
(a) Have and disclose a process for periodically evaluating the performance of its senior executives; and	Yes	Page 17
(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process	Yes	Page 17

Principle 2 – Structure the Board to Add Value

Recommendation	Comply	Reference
2.1 The board of a listed entity should:		
(a) Have a nomination committee which:		
(1) Has at least 3 members, a majority of whom are independent directors;	Yes	Page 16
(2) Is chaired by an independent director;	Yes	Page 16
And disclose:		
(3) The charter of the committee;	Yes	Page 16
(4) The members of the committee; and	Yes	Page 28
(5) As at the end of each reporting period, the number of times the committees met throughout the period and the individual attendances of the members at those meetings; or	Yes	Page 28
(b) If it does not have a nomination committee, disclose that fact and the process it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively	N/a	
2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Yes	Page 19
2.3 A listed entity should disclose:		
(a) The names of the directors considered by the board to be independent directors;	Yes	Page 18
(b) If a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion	N/a	
2.4 A majority of the board of a listed entity should be independent directors.	Yes +	Page 18
2.5 A Chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Yes	Page 18
2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to maintain the skills and knowledge needed to perform their role as directors effectively	Yes	Page 19

+ SurfStitch notes half of the Board members are considered to be independent. In light of this, the Board has confirmed that the Independent Non-executive Chairman has a casting vote.

Principle 3 – Act Ethically and Responsibly

Recommendation	Comply	Reference
3.1 A listed entity should:		
(a) Have a code of conduct for its directors, senior executives and employees;	Yes	Page 19
(b) Disclose that code or a summary of it.	Yes	Page 19

Principle 4 – Safeguard Integrity in Financial Reporting

Recommendation	Comply	Reference
4.1 The board of a listed entity should have an audit committee which:		
(1) Has at least 3 members, all of whom are non-executive directors and a majority of whom are independent directors ; and	No	Page 16
(2) Is chaired by an independent director, who is not a chair of the board,	Yes	Page 16
And disclose:		
(3) The charter of the committee;	Yes	Page 16
(4) The relevant qualifications and experience of the members of the committee; and	Yes	Pages 3-4
(5) In relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members of those meetings.	Yes	Page 28
4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Yes	Page 20
4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Yes	Page 20

Principle 5 – Make Timely and Balanced Disclosure

Recommendation	Comply	Reference
5.1 A listed entity should:		
(a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and	Yes	Page 20
(b) Disclose that policy or a summary of it.	Yes	Page 20

Principle 6 – Respect Rights of Security Holders

Recommendation	Comply	Reference
6.1 A listed entity should provide information about itself and its governance to investors via its website.	Yes	Page 20
6.2 A listed entity should design and implement an investor relations program to facilitate effective two way communication with investors.	Yes	Page 20
6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Yes	Page 21
6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Yes	Page 21

Principle 7 – Recognise and Manage Risk

Recommendation	Comply	Reference
7.1 The board of a listed entity should:		
(a) Have a committee or committees to oversee risk, each of which:		
(1) Has at least 3 members, a majority of whom are independent directors; and	Yes	Page 16
(2) Is chaired by an independent director.	Yes	Page 16
And disclose:		
(3) The charter of the committee;	Yes	Page 16
(4) The members of the committee; and	Yes	Page 28
(5) As at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	Yes	Page 28
(b) If it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	N/a	
7.2 The board or a committee of the board should:		
(a) Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and	Yes	Page 21
(b) Disclose, in relation to each reporting period, whether such a review has taken place.	Yes	Page 21
7.3 A listed entity should disclose:		
(a) if it has an internal audit function, how the function is structured and what role it performs; or	N/a	
(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Yes	Page 22
7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Yes	Page 22

Principle 8 – Remunerate Fairly and Responsibly

Recommendation	Comply	Reference
8.1 A board of a listed entity should:		
(a) Have a remuneration committee which:		
(1) Has at least 3 members, a majority of whom are independent directors; and	Yes	Page 16
(2) Is chaired by an independent director;	Yes	Page 16
And disclose:		
(3) The charter of the committee;	Yes	Page 16
(4) The members of the committee; and	Yes	Page 28
(5) As at the end of each reporting period the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	Yes	Page 28
(b) If it does not have a remuneration committee, disclose the fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	N/a	
A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and other senior executives.	Yes	Page 22
8.3 A listed entity which has an equity-based remuneration scheme should:		
(a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk or participating in the scheme; and	Yes	Page 22
(b) Disclose that policy or a summary of it.	Yes	Page 22

This Corporate Governance Statement is current as at 10 October 2016 and has been approved by the Board.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of SurfStitch Group Limited and its subsidiaries as at and for the year ended 30 June 2016.

Principal Activities

The SurfStitch Group is an action sports and youth culture apparel content network and online retailer. The principal activities of the SurfStitch Group during the course of the reporting period were online retail and online advertising and publication. Other than as disclosed in the Operating and Financial Review, no significant changes in the nature of SurfStitch Group's activities occurred during the year ended 30 June 2016.

Directors Meetings

The number of Directors' meetings held (including meetings of committees of the Board) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board		Audit, Risk and Compliance Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
H McDonald	11	11	4	4	1	1
S Goddard	11	11	4	4	1	1
J Huxley	11	11	-	-	1	1
J Cameron	8	7	-	-	-	-
L Pedersen	11	11	-	-	-	-
J Stone	11	11	-	-	-	-

A – Eligible to attend (number of meetings held while a Director)

B – Attended

Mike Sonand and San Weiss were appointed since 30 June 2016 and their attendance at Board and Committee meetings will be disclosed in the 2017 Annual Report.

Company Secretary

Karen Birner was appointed Company Secretary of the Company in October 2014. Karen holds a Bachelor of Commerce degree from Bond University and is a member of the Institute of Chartered Accountants Australia, and a Member of the Australian Institute of Company Directors.

Karen joined the SurfStitch Group in September 2014 as the Group Chief Financial Officer and continued to hold that position at 30 June 2016. Karen is also Company Secretary and/or Director of a number of SurfStitch Group subsidiaries.

State of Affairs

Other than as disclosed in the Operating and Financial Review, there were no significant changes in the state of affairs for SurfStitch Group during the financial year ended 30 June 2016.

Directors

The names of Directors who held office of the Company at any time during the financial year and at the date of this report, together with information on their qualifications, experience, special responsibilities, other listed company directorships and other details, are set out on pages 2 and 3.

Directors Interests

The relevant interests of each Director in the equity of the Company at the date of this report (unless otherwise indicated) are set out in the following table.

Director	Ordinary shares	Loan shares	Options over ordinary shares ³	Rights over ordinary shares
H McDonald ¹	1,510,000	-	-	-
S Goddard	210,000	-	-	-
J Huxley	15,000	-	-	-
S Weiss	-	-	-	-
J Cameron ²	9,332,457	400,000	-	-
L Pedersen	9,039,377	400,000	-	280,160
J Stone	11,425,983	-	-	635,231
M Sonand	-	-	-	1,000,000

¹ Balances for Howard McDonald are as at 1 August 2016, being the date on which he ceased to be a Director.

² Balances for Justin Cameron are as at 9 March 2016, being the date on which he ceased to be a Director. Justin Cameron has since forfeited the 400,000 loan shares and 800,000 IPO Bonus Shares (included in the Ordinary shares balance in the table above).

³ The Company does not have any options on issue.

Indemnification and Insurance of Officers and Auditors

INDEMNIFICATION

The Company has entered into Deeds of Indemnity, Access and Insurance with each of the current and former Directors.

The Company, to the extent permitted by law, indemnifies its current Directors against all liabilities against another person (other than the Company and its controlled entities) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company, to the extent permitted by law, may purchase and maintain insurance, or pay, or agree to pay, a premium for insurance for each director against any liability incurred by that person as an officer of the Company or its controlled entities. The Company has obtained directors' and officers' insurance as required under the Deeds of Indemnity, Access and Insurance.

INSURANCE PREMIUMS

During the year ended 30 June 2016, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current directors and officers, including directors and officers of its controlled entities.

The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Legal Proceedings

During FY16, entities within SurfStitch Group entered into a series of agreements with Coastalwatch Pty Ltd ("Coastalwatch"), Three Crowns Investments Pty Ltd ("TCI") and Coastalcoms Pty Ltd ("Coastalcoms") (the "3CM Transaction").

In 1H FY16:

- the content of SurfStitch Group's media assets was licensed to Coastalwatch for a licence fee of approximately \$20.3 million, receivable by the Group in April 2016;
- TCI gave SurfStitch Group branding rights to certain of TCI's apps for a term of ten years for a fee of \$2 million, payable in February 2016 by SurfStitch Group to TCI, plus TCI acquired rights to advertise and distribute its brands on SurfStitch Group's platforms (for 15% of the recommended retail price plus additional fees) for a period of ten years.

In 2H FY16:

- the content licences were varied so that the \$20.3 million receivable became payable in ten equal instalments to be paid annually; and
- the term of the app branding rights was reduced to two years, although not the advertising or distribution rights of TCI, plus an additional fee for premium content of \$0.5 million became payable by SurfStitch Group to TCI.

In addition, two ten year agreements were added to the 3CM Transaction whereby:

- Coastalwatch would provide a link on its website to SurfStitch Group's Australian website for a fee of \$8 million payable in ten equal instalments to be paid annually; and
- Coastalcoms would give SurfStitch Holdings Pty Ltd access to its software, 'Environmental Data Management System' for a fee of US\$9.7 million payable in ten equal instalments to be paid annually (the "Software Licensing Agreement").

In summary, the 3CM Transaction would be paid for as follows:

- at least \$20 million would be paid from Coastalwatch, TCI and Coastalcoms to SurfStitch Group over a period of ten years; and
- US\$9.7 million plus \$10.5 million would be paid from SurfStitch Group to Coastalwatch, TCI and Coastalcoms over a period of ten years.

Since May 2016, SurfStitch Group has been carrying out an in-depth review of the 3CM Transaction. The findings of this review contributed to the ASX Announcement made on 9 June 2016 and the termination of the Software Licensing Agreement in July 2016.

Proceedings were commenced by TCI and Coastalcoms in August 2016 in the Queensland District and Supreme Courts against entities within SurfStitch Group in respect of the 3CM Transaction and it is possible that further proceedings may be commenced. SurfStitch Group entities will vigorously defend these proceedings. The aggregate potential liability and costs in respect of the proceedings cannot be accurately assessed at this time.

Contingencies in respect of legal proceeding are disclosed in note 26 to the financial statements.

Non-Audit Services

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor, and, in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirement of the Corporations Act 2001 (Cth) for the following reasons:

- all non-audit services are subject to corporate governance procedures adopted by the Group and have been reviewed by those charged with governance throughout the year to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to audit independence as set out in the APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate to the Group or jointly sharing the risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the year ended 30 June 2016 are disclosed in note 29 of the Financial Report.

Operating and Financial Review and Review of Operations

The consolidated loss attributable to the owners of the Company for the year ended 30 June 2016 was \$155.4 million. A review of operations, business strategies and financial results of the SurfStitch Group for the year ended 30 June 2016 are set out on pages 5 to 14.

Information in the OFR is provided to enable shareholders to make informed assessment about the Company's strategies and prospects for future financial years. Detail that could give rise to likely material detriment to the Company (for example, information that is commercially sensitive, is confidential or could give a third party a commercial advantage) has not been included.

Dividends

No dividends were paid to members or determined by Company with respect to the year ended 30 June 2016 (2015: nil). The Board does not intend to pay dividends with respect to the year ended 30 June 2016.

Likely Developments and Expected Results

Other than the developments described in this report (including the Operating and Financial Review), the Directors are of the opinion that no other matters, circumstance or development has affected or will significantly affect the operations and expected results of the Group in future financial years.

Remuneration Report

The Remuneration Report is set out on pages 32 to 47 and forms part of the Directors' Report for the year ended 30 June 2016.

Environmental Regulations

The Directors recognise the importance of environmental and workplace health and safety issues.

The Directors are committed to compliance with all relevant laws and regulations to ensure the protection of the environment, the community and the health and safety of employees. The operations of the SurfStitch Group are not subject to any particular and significant environmental regulation under the laws of the Commonwealth of Australia or any of its states or territories.

Based on the results of enquiries made, the Board is not aware of any significant breaches of environmental regulations during the period covered by this report.

Lead Auditor's Independence

The lead auditor's independence declaration is set out on page 48 and forms part of the Directors' Report for the year ended 30 June 2016.

Rounding of Amounts

The amounts in the consolidated financial statements have been rounded off to the nearest thousand dollars in accordance with ASIC Corporations Instrument 2016/191.

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

The Directors' Report is signed in accordance with a resolution of the Directors.



Samuel Weiss
Chairman

Sydney

30 August 2016

REMUNERATION REPORT

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CHAIRMAN'S LETTER (unaudited)

Dear Shareholders,

On behalf of the Board, I am pleased to present SurfStitch's 2016 Remuneration Report.

I joined the Board of SurfStitch Group Limited (the "Group") after the end of the 2016 Financial Year and replaced Howard McDonald as Chairman effective 1 August 2016.

It was a difficult year for the Group characterised by management turmoil in the second half, and the acquisition of a number of businesses in the first half. Both contributed to remuneration challenges.

In March, Co-Founder Justin Cameron ceased to be CEO and was replaced by Co-Founder Lex Pedersen and SurfDome founder Justin Stone, until June when Mike Sonand became CEO.

Mike is a seasoned corporate executive with direct related prior experience in the global Action Sports industry and I am pleased to report that under his steady guidance our very capable middle management and senior leadership teams are making great strides in operating competitive websites that are well merchandised and are working collaboratively to operate as a single Group across three continents. We have instilled cost management disciplines and are working hard to harmonise systems across the Group.

FY16's performance has been adversely impacted by near term investment in the Group's platform and processes, and the slower than anticipated integration of the entities acquired over the last 18 months.

New CEO Appointment

Mike Sonand was appointed Group CEO on 9 June 2016. Mike was originally appointed as the new Chief Operating Officer in May 2016 to review the recent performance of the Group and to recommend what actions were required to stabilise the Group. Mike has had a very positive impact on the leadership team and the impact of his recommendations will enable the Group to focus on the future success of its core eCommerce business.

Mike Sonand's remuneration arrangements are set out in the body of the Remuneration Report.

Former CEO's Incentives

In March 2016, Justin Cameron ceased to be Group CEO and Managing Director. As a result of Justin's departure he forfeited any opportunity to receive remuneration under the Group's FY16 short and long term incentive plans and the 400,000 Loan Shares granted to him shortly prior to listing.

In addition, the Board exercised its discretion to enforce the clawback of 800,000 vested shares granted to Justin under a legacy management share scheme.

Remuneration Outcomes

Due to the Group's poor results during FY16, no STI was paid to KMP in FY16.

In addition, no LTI awards were due for testing during the year (the first LTI awards granted by the Company will be tested after 31 December 2017).

In order for any Executive Director FY15 and FY16 LTI awards to vest, a significant share price improvement will be required given the relative Total Shareholder Return performance hurdle that applies to 100% of the outstanding grants.

I will lead a comprehensive review of remuneration policies and practices during FY17, especially in regard to short and long term incentive compensation awards for senior executives as well as the use of one off share grants to recruit and retain executives. The purpose of the review will be to ensure that the Group's remuneration policies are designed to create shareholder value and to restore the Group to robust financial health.

The Board has made a conscious effort to ensure the Remuneration Report is presented in a clear and concise manner, with the link between pay and performance clearly articulated. On behalf of the Board, I invite you to read the 2016 Remuneration Report and welcome any feedback that you may have.

Yours sincerely



Sam Weiss

INTRODUCTION

The Directors of SurfStitch (the “Company”) are pleased to present the 2016 Remuneration Report which outlines the Board’s approach to remuneration for Non-Executive Directors, Executive Directors and other Key Management Personnel (“KMP”) for the financial year ended 30 June 2016.

The information in this report has been audited as required by section 308(3C) of the Corporations Act 2001 (Cth).

Key Management Personnel (“KMP”)

The table below outlines the KMP at any time during the financial year, and unless otherwise indicated, they were KMP for the entire year.

On 1 July 2016, Sam Weiss was appointed to the Board as an independent Non-Executive Director and commenced as Chairman on 1 August 2016. Accordingly, Sam Weiss was not a member of the KMP during FY16. Howard McDonald was a member of the KMP for the full financial year and ceased to be a Director on 1 August 2016.

KMP	Position	Term as KMP
Executive Directors		
Mike Sonand	Managing Director and Chief Executive Officer	Effective 15 July 2016
	Chief Executive Officer	9 June 2016 to 14 July 2016
	Chief Operating Officer	Appointed 3 May 2016 to 8 June 2016
Lex Pedersen	Director – Business Development	Effective 9 June 2016
	Joint Managing Director and CEO	17 March 2016 to 8 June 2016
	Managing Director and President SWELL (USA)	Until 16 March 2016
Justin Stone	Director – Global Support	Effective 9 June 2016
	Joint Managing Director and CEO	17 March 2016 to 8 June 2016
	Managing Director, Europe	Until 16 March 2016
Justin Cameron	Managing Director and Chief Executive Officer	Until 9 March 2016
Group Executives		
Karen Birner	Chief Financial Officer and Company Secretary	
Mark Storey	Chief Operating Officer	Until 24 June 2016
Non-Executive Directors		
Howard McDonald	Independent Non-Executive Chairman	Until 1 August 2016
Stephen Goddard	Independent Non-Executive Director	
Jane Huxley	Independent Non-Executive Director	

REMUNERATION GOVERNANCE

Remuneration and Nomination Committee (“RNC”)

SurfStitch Group has established a RNC which is currently comprised of three independent Non-Executive Directors:

Committee member	
S Weiss	Member from 1 July 2016 and Chair from 1 August 2016
S Goddard	
J Huxley	
H McDonald	Chair until resigned as a Director 1 August 2016

The key responsibilities of the RNC are to assist the Board in its oversight of:

- the remuneration framework and policy for Executive and employee reward;
- the determination of appropriate Executive reward, including advice on structure, quantum and mix;
- the determination of achievement of performance measures included in any variable remuneration plan;
- compliance with applicable legal and regulatory requirements; and
- Board size, composition and succession planning.

The Board intend to replace Sam Weiss as Chair of the RNC during FY17.

A full charter outlining the RNC’s responsibilities is available at www.SurfStitchgroup.com/investors/downloads/.

External Remuneration Consultants

The RNC engages remuneration consultants to provide information on market practice and other matters to assist the RNC in performing its duties. The RNC has protocols in place to ensure that any

recommendations or advice provided by remuneration consultants is appropriate for the Group, and free of undue influence from management.

No “remuneration recommendations” for the purposes of the Corporations Act were given during FY16.

Board Discretion to Clawback Awards

For STI awards, the Board has the discretion to withhold payment of STI (or any future STI) where there is a risk of unintended award outcomes.

For LTI awards, the Board has an overriding discretion to forfeit or lapse equity awards granted under the Company’s equity incentive plans where an inappropriate benefit has been or may be provided.

The Board may, for example, use this discretion to forfeit some or all of a participant’s vested or unvested incentives if the Board considers that the participant has breached his or her obligations to the Group or has acted fraudulently or dishonestly.

In FY16, the Board exercised this discretion to forfeit 800,000 vested shares that had been granted to Justin Cameron under a legacy management share scheme prior to Listing.

EXECUTIVE REMUNERATION

Remuneration Framework

Appropriate remuneration of Executives is a key element to the success of the Group. The RNC has established a remuneration framework, which has applied since Listing and is based on the core principles outlined below. The framework enables the Group to recruit, motivate and retain a high calibre of talent that will deliver on our growth strategy. During FY17 the Board will review the remuneration framework to ensure that it is applied in a way that restores the Group's financial health and delivers value to shareholders.

Remuneration Framework		
Principle	Objective	Application
Align Shareholder Value	SurfStitch is committed to aligning Executive reward with increased shareholder value.	A significant portion of Executive reward is provided as variable remuneration with performance metrics tied to increasing revenue, profitability and implementing key strategic initiatives. Equity incentives are evaluated based on Total Shareholder Return to ensure Executive reward is aligned with shareholder value.
Performance Driven	Align actual remuneration outcomes with Group and individual performance.	Challenging STI and LTI performance measures encourage and reward outperformance at an individual and Group level. The Board undertakes an annual review of remuneration mix to ensure the remuneration framework encourages behaviours that will drive strategic growth objectives.
Competitive	Ensure long term retention of high calibre employees, rewarding employees in line with their contribution to the Group's success.	The Board undertakes an annual review of market remuneration to ensure total reward is competitive.

Total Remuneration Mix

The Board believes it is appropriate to have a remuneration framework that consists of a fixed component as well as an at-risk component consisting of short and long term incentives.

	Fixed	Variable	
	FAR	STI	LTI
Justin Cameron	44%	12%	44%
Lex Pedersen	44%	12%	44%
Justin Stone	44%	12%	44%
Karen Birner ¹	100%	-	-
Mark Storey ²	100%	-	-

¹ Karen Birner did not participate in the formal STI or LTI plan described in this report, however she did participate in an equity based incentive plan under which she was allocated 200,000 performance rights that will vest over 2 years, subject to her continued employment. Karen was granted these rights on 27 October 2015 at no cost. This grant is not included in the table above.

² Mark Storey did not participate in the formal STI or LTI plan described in this report, however he did participate in an equity based incentive plan under which he was allocated 150,000 performance rights. Mark was granted these on rights on 27 October 2016 at no cost. The board accelerated the vesting of these performance rights following cessation of Mark's employment on 24 June 2016 in accordance with Mark's separation agreement. This grant is not included in the table above.

As part of RNC's review of compensation practices and policies, it will conduct an in-depth examination of reward structure for both KMP and other participants. Notwithstanding the upcoming review, the Group does not expect to continue with equity awards for KMP's that are time based without performance hurdles.

Remuneration Components

FIXED ANNUAL COMPONENT

Fixed Annual Reward ("FAR") includes base salary, superannuation and other non-cash benefits.

SurfStitch Group's objective is to recruit and retain appropriately qualified and experienced Executives and to remain competitive in the market, having regard to a selected comparator group. The comparator group includes companies in the retail sector and companies with a large on-line sales presence. The market capitalisation, geographies and revenue of companies is also considered.

SHORT TERM INCENTIVE ("STI") PLAN

A summary of the Executive STI plan in effect during FY16 is provided below:

Objective	To drive individual and Group performance to achieve financial and strategic targets.								
Participation	<p>Lex Pedersen, Justin Stone and Justin Cameron. No other members of the KMP were eligible to receive an STI award.</p> <p>As the new CEO, Mike Sonand, only commenced employment on 8 June 2016 he was not eligible to participate in the FY16 STI plan, however he will be eligible to participate in the STI plan in future years.</p>								
Performance Period	1 July 2015 to 30 June 2016.								
Opportunity	<p>Target opportunity is 25% of fixed remuneration.</p> <p>Maximum award is 50% of fixed remuneration, which is awarded for meeting stretch performance targets.</p>								
Delivery of Award	Cash payment in September of each year following the RNC’s assessment of the performance measures based on the Group’s audited financial statements.								
Performance Measures and Weighting	<table><tr><td>Underlying Revenue</td><td>35%</td></tr><tr><td>Underlying EBITDA</td><td>35%</td></tr><tr><td>Timely execution of strategic objectives</td><td>30%</td></tr></table> <p>These performance measures were identified by the RNC as the most appropriate for FY16 in achieving the strategic objectives of the Group.</p> <p>During FY17 the Board will review STI hurdles for both KMP and other participants.</p>			Underlying Revenue	35%	Underlying EBITDA	35%	Timely execution of strategic objectives	30%
Underlying Revenue	35%								
Underlying EBITDA	35%								
Timely execution of strategic objectives	30%								
Clawback	The Board retains the discretion to forfeit payment of STI (or any future STI) where there is a risk of unintended award outcomes.								
Treatment on cessation of employment	Participants must be employed and not under notice of resignation or termination at the completion of the performance period to be eligible for the STI award. The Board retains discretion to allow pro-rata payments in the case of good leavers.								

STI OUTCOMES FOR 2016 FINANCIAL YEAR

A key principle of the remuneration framework is to ensure reward is clearly linked to performance. The STI plan performance hurdles for FY16 were aligned to the delivery of the financial and non-financial targets listed in the summary table above.

Based on the FY16 performance measures, the RNC determined that no FY16 STI award would be paid to any participants.

STI ACHIEVED

The following table outlines the percentage of maximum STI achieved (and forfeited) for eligible KMP for the 2016 financial year.

KMP ¹	Maximum STI Opportunity (% of FAR)	% Vested	% Forfeited
Lex Pedersen	50%	0%	100%
Justin Stone	50%	0%	100%
Justin Cameron ²	50%	0%	100%

¹ Mark Storey and Karen Birner did not participate in the FY16 STI plan.

² In accordance with the terms of the Executive STI plan, Justin Cameron forfeited 100% of his STI when he ceased employment with the group.

LONG TERM INCENTIVE ("LTI") PLAN

SurfStitch's LTI awards are granted under the Company's Equity Incentive Plan ("EIP"). Grants are made to executives to align the KMP's reward with the successful achievement of sustainable long-term value creation and success of the Group.

No LTI was due to for testing in FY16 as no performance periods have yet ended for prior year awards.

The following table explains the key features of the LTI awards offered to Executives during FY16. The terms of the FY17 grant to the new CEO, Mike Sonand, are also described below.

Participation	<p>Lex Pedersen and Justin Stone were the only members of KMP that received LTI grants in FY16. Going forward, the new CEO Mike Sonand will be eligible to participate in the Company LTI arrangements in future years. Mike Sonand's FY17 LTI was granted to him in June 2016 with a performance period of 1 July 2016 – 30 June 2019.</p> <p>While shareholder approval was sought for the grant of 345,230 Performance Rights to Justin Cameron at the 2016 Annual General Meeting, this award was not made prior to his cessation of employment with the Group and Justin Cameron forfeited his entitlement to the award at that time.</p>
Instrument	<p>Performance Rights, issued at nil consideration. A Performance Right is a right to receive a share in the Company. Vesting of Performance Rights will occur on satisfaction of performance and service conditions.</p> <p>On vesting, any Performance Rights that vest are automatically exercised and 1 fully paid ordinary share in SurfStitch will be allocated in respect of each vested Performance Right. The Board retains the discretion to pay a cash amount instead of allocating shares on vesting of Performance Rights in appropriate circumstances (e.g. where a participant has ceased employment).</p>

Remuneration report (audited)(continued)

FY16 Grant	As part of the FY16 LTI grant, Lex Pedersen was granted 280,160 Performance Rights and Justin Stone was granted 235,231 Performance Rights.										
FY17 Grant	Mike Sonand was granted 1,000,000 Performance Rights on 21 June 2016 as his FY17 LTI award.										
FY16 Performance Period	The FY16 grant has a performance period measured over the period from 1 July 2015 to 30 June 2018 (3-year performance period).										
FY17 Performance Period	The FY17 grant has a performance period commencing 1 July 2016 and ending 30 June 2019 (3-year performance period).										
Performance Conditions	<p>The FY16 LTI award and the FY17 LTI award to Mike Sonand uses relative total shareholder return ("TSR") as the performance measure 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), OronGroup Limited (ASX: ORL) and The PAS Group Limited (ASX: PGR).</p> <p>In addition, a service condition applies so that even if the TSR hurdle is satisfied, no Performance Rights will vest unless this condition is also met.</p> <p>The service condition requires the participant to be employed by the Group and not under notice of resignation or termination of their employment at the date the Board determines vesting of the award.</p> <p>The Board believes that relative TSR will appropriately incentivise Executives in achieving the LTI Plan objectives and the service condition encourages retention of key Executives.</p> <p>The FY16 LTI awards and Mike Sonand's FY17 LTI award will vest in line with the below vesting schedule, provided that the service condition is also satisfied.</p> <table> <tr> <th>TSR Ranking</th><th>% of Rights that will vest</th></tr> <tr> <td>< 50th Percentile</td><td>Nil</td></tr> <tr> <td>At 50th Percentile</td><td>50%</td></tr> <tr> <td>Between 50th and 70th Percentile</td><td>Straight line pro rata vesting between 50% and 100%</td></tr> <tr> <td>At or > 75th Percentile</td><td>100%</td></tr> </table>	TSR Ranking	% of Rights that will vest	< 50 th Percentile	Nil	At 50 th Percentile	50%	Between 50 th and 70 th Percentile	Straight line pro rata vesting between 50% and 100%	At or > 75 th Percentile	100%
TSR Ranking	% of Rights that will vest										
< 50 th Percentile	Nil										
At 50 th Percentile	50%										
Between 50 th and 70 th Percentile	Straight line pro rata vesting between 50% and 100%										
At or > 75 th Percentile	100%										
Performance Assessment	The Board will determine the extent to which the relative TSR condition has been achieved and whether the service condition is satisfied shortly after the end of the performance period.										
Entitlements	Performance Rights do not carry dividends or voting rights prior to vesting.										
Clawback and preventing inappropriate benefits	The Board retains a broad discretion to clawback entitlements under the Company's LTI arrangements to prevent an inappropriate benefit. For example, this may apply where the Board considers that the participant has acted fraudulently or dishonestly or there is a material misstatement in the Group's accounts.										
Restrictions on Dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with unvested equity.										
Cessation of Employment	<p>If the participant's employment is terminated for cause or he or she resigns (or gives notice of his or her resignation), all unvested Performance Rights will be forfeited, unless the Board determines otherwise.</p> <p>In all other circumstances, unless the Board determines otherwise, Performance Rights remain on foot and subject to the original conditions (except that the service condition is waived).</p>										
Change of Control	FY16 grant: Where the Board considers that an event is likely to result in a change of control of the Company, unvested Performance Rights will vest, unless the Board determines otherwise. If there is an actual change of control, Performance Rights will vest.										

FY17 grant: The Board has the discretion to vest some or all of the participant's Performance Rights if the Board considers that an event is likely to result in a change of control of the Company. If a change of control occurs before the Board exercises this discretion, a pro rata portion of the Performance Rights will vest and the Board may determine whether the remainder vest or lapse.

Group Performance

The table below provides a summary of the Group's performance in FY16. The information below is taken into account by the RNC when setting and determining short-term and long-term remuneration for KMP.

Given the Company's FY16 performance, the Board determined that no STI would be paid in FY16.

In addition, none of the FY15 or FY16 LTI granted under the EIP or Loan Plan will vest unless there is a significant share price improvement in FY17.

Share Performance				Earnings Performance (unaudited) A\$ million	
Closing share price at 30 June 2015	Closing share price at 30 June 2016	Dividend per share	EPS ¹	Underlying revenue	Underlying EBITDA
\$1.83 ²	\$0.20	Nil	(\$0.07)	235.6	(18.8)

¹ EPS disclosed in the table above represents SurfStitch Group Limited's underlying basic earnings per share for the period.

² The opening share price at listing was \$1.00

OTHER TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

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 USA, 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 \$1,046,031 (2015: \$476,598).

EXECUTIVE REMUNERATION DISCLOSURE

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 1 July 2015 to 30 June 2016. The executive remuneration for FY15 is also disclosed. All amounts are stated in AUD.

KMP	FY	Short Term				Post Employment	Share Based Payment ¹		Total	
		Base Salary	Cash Bonus ²	Termination Benefits	Non-cash Benefits ³		Loan Shares ⁴	Rights ^{5,6,7,8,9}	Total	Performance Related %
Mike Sonand	2016	73,607	-	-	-	1,551	-	1,312	76,470	2%
	2015	-	-	-	-	-	-	-	-	-
Lex Pedersen ¹⁰	2016	634,656	-	-	79,069	629	70,369	69,417	854,139	16%
	2015	280,000	730,195	-	133,085	4,696	41,545	-	1,189,521	65%
Justin Stone ¹¹	2016	348,604	-	-	4,051	-	-	128,653	481,308	27%
	2015	183,077	-	-	-	-	-	38,310	221,387	17%
Karen Birner	2016	265,026	-	-	74	19,308	-	242,857	527,265	46%
	2015	110,385	-	-	-	9,360	-	23,118	142,863	16%
Mark Storey ¹²	2016	309,446 ¹³	-	28,846 ¹⁴	3,245	19,308	-	466,286	827,131	56%
	2015	194,923	-	-	-	-	-	41,545	236,468	18%
Justin Cameron	2016	561,140 ¹⁵	-	-	40,061	14,481	(41,529)	-	574,153	(7%)
	2015	220,000	730,195	-	4,523	11,291	41,545	-	1,007,554	77%

- Share based remuneration is equal to the accounting expense recognised in the 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.
- No STI was paid in FY15. The \$730,195 amount refers to an IPO bonus. Details of this bonus can be found in the 2015 Remuneration Report.
- Non-cash benefits include discounts provided on the purchase of goods from the Group, travel and other minor benefits.
- In FY15, Justin Cameron and Lex Pedersen were each granted 400,000 loan shares, at a weighted average fair value of \$0.6233 per loan share. The amount recognised in the table above represents the accounting expense for the period from grant date to 30 June 2016.
- Mike Sonand was granted 1,000,000 performance rights on 21 June 2016 at a weighted average fair value of \$0.17 per performance right. The amount recognised in the profit or loss represents the accounting expense for the period from grant date to 30 June 2016.
- In FY16, Lex Pedersen was awarded 280,160 performance rights at a weighted average fair value of \$1.09 per performance right. The amount recognised in profit or loss represents the accounting expense for the period from grant date to 30 June 2016.
- In FY15 Justin Stone was awarded 400,000 performance rights at a weighted average fair value of \$0.6233 per performance right. In FY16, Justin was awarded 235,231 performance rights at a weighted average fair value of \$1.09 per performance right. The amount recognised in profit or loss represents the accounting expense for the period from grant date to 30 June 2016.
- In FY15 Karen Birner was granted 50,000 performance rights prior to listing at a weighted average fair value of \$1.00 per performance right. In FY16 Karen was granted 200,000 performance rights at a weighted average fair value of \$1.72 per performance right. The amount recognised in profit or loss represents the accounting expense for the period from grant date to 30 June 2016.

Remuneration report (audited)(continued)

- 9 In FY15 Mark Storey was awarded 400,000 performance rights at a weighted average fair value of \$0.6233 per performance right. In FY16, Mark was also awarded 150,000 performance rights at a weighted average fair value of \$1.72 per performance right. The amount recognised in profit or loss represents the accounting expense for the period from 1 July 2015 to 30 June 2016.
- 10 Lex Pedersen's base salary for FY16 includes a one-off cost of \$68,482 associated with the payout of Lex's statutory annual leave entitlements on the termination of his US based contract. 97% of Lex's base salary is paid in USD; conversion rate of AUD: 1.3: USD 1.0 applied for FY15; AUD 1.36: USD 1.0 for FY16. Non-cash benefits include housing, travel, motor vehicles, stock allowance and other minor benefits provided as a result of his international assignment.
- 11 Justin Stone's base salary is paid in GBP; conversion rate of AUD 2.0 : GBP 1.0 applied for FY15; AUD 2.01 : GBP 1.0 applied for FY16.
- 12 Mark Storey ceased to be employed by the Group on 24 June 2016. His FY16 remuneration disclosed in this table relates to the period he was employed during the year (i.e. 1 July 2016 to 24 June 2016). 23% of Mark's FY15 base salary was paid in EUR; conversion rate of AUD 1.7: EUR 1.0 applied.
- 13 Mark Storey's base salary includes a one-off cost of \$22,633 associated with the payout of Mark's accrued statutory annual leave entitlements on cessation of employment.
- 14 Payment in lieu of notice on cessation of employment.
- 15 Justin Cameron's base salary includes a one-off cost of \$95,261 associated with the payout of his current year accrued statutory annual leave entitlements on cessation of employment. Upon cessation of employment, Justin Cameron was also paid \$93,033 related to statutory annual leave accrued in prior periods.

LEGACY REMUNERATION ARRANGEMENTS

Pre-IPO Legacy Awards

The Company had in place a remuneration framework prior to Listing that included a number of incentives that would vest at Listing provided that certain agreed performance measures were met. The details of these 'pre-IPO' arrangements were disclosed in the Company's Prospectus lodged with ASIC in 2014 and the 2015 Remuneration Report.

A new remuneration framework has been implemented since Listing (details of the new remuneration framework are included on page 36).

The table below outlines a summary of the legacy equity incentive arrangements delivered prior to listing.

Participant	Number of Shares	Face Value of Shares
Justin Cameron	800,000 ¹	\$800,000 ²
Lex Pedersen	800,000 ¹	\$800,000
Justin Stone	200,000 ³	\$200,000
Mark Storey	800,000 ⁴	\$800,000
Karen Birner	16,667 ⁵	\$16,667

- 1 These shares were granted prior to Listing under a legacy management share scheme when the fair value of the Shares was \$1.00 per share. The market value of each share at the time of Listing was \$1.00. The shares were subject to the following escrow requirements which have now been lifted.
- 2 Justin Cameron's 800,000 shares have since been forfeited at the discretion of the Board.
- 3 These shares were granted as a 'one-off' sign-on bonus prior to Listing when the fair value of the Shares was \$1.00 per share. These shares vested following the successful completion of the Surfdome acquisition and Listing of SurfStitch. The market value of each share at the time of Listing was \$1.00. These shares were subject to similar escrow requirements to those outlined in footnote 1 above, which have now been lifted.
- 4 These shares were granted prior to Listing under a legacy management share scheme when the fair value of the Shares was \$1.00 per share. The market value of each share at the time of Listing was \$1.00.
- 5 Karen Birner was granted 50,000 Performance Rights prior to Listing. 16,667 Performance Rights vested on Listing and the remaining 33,333 Performance Rights will vest in December 2017, subject to Karen remaining employed by the Group. Each performance right entitles Karen to one share on vesting. 16,667 shares were allocated to Karen on vesting of the first tranche of these Performance Rights.

Legacy Loan Plan

The Loan Share Plan was approved by the Board prior to listing. All Loan Share Plan offers were made prior to listing and no new offers have been made since. No new offers will be made going forward as this plan has been replaced with the EIP (see above).

Lex Pedersen and Justin Cameron participated in the Loan Plan as they were considered substantial shareholders of the Company at the time the grant was made and would not have been able to participate in the grant of Performance Rights in a tax effective way. Relevant tax rules have now changed, which facilitated the grant of Performance Rights to Lex Pedersen as an FY16 LTI award.

The participants were provided with a limited recourse loan for the purpose of applying for Loan Shares. Each Loan Share is a SurfStitch share, which is subject to restrictions. Vesting will occur on satisfaction of performance and service conditions.

Participants were each granted a target loan amount of \$380,000 to acquire 400,000 Loan Shares. The Loan Shares awarded have a grant date of 26 November 2014. 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 Loan Shares vest / outstanding loan forgiven;
- 31 December 2018 vesting date – a further 20% of the Loan Shares vest / outstanding loan forgiven; and
- 31 December 2019 vesting date – the final 20% of the Loan Shares vest / outstanding loan forgiven.

Any Loan Shares that do not vest at the end of the relevant vesting period will be forfeited in full satisfaction of the associated portion of the outstanding loan. 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.

All Loan Shares provided to Justin Cameron were forfeited as a result of his cessation of employment with the Group.

For further details about the awards of loan shares, please see the 2015 Remuneration Report.

MOVEMENT IN EQUITY HOLDINGS OF KMP

Movements in Shareholdings of KMP

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

	Held at 1 July 2015	Granted as remuneration	Received on vesting of rights	Net change other ¹	Forfeited	Held at 30 June 2016
Executive Directors						
Lex Pedersen	16,397,223	-	-	(7,357,846)	-	9,039,377
Justin Stone	11,425,983	-	-	-	-	11,425,983
Karen Birner	56,667	-	66,667	(40,000)	-	83,334
Mark Storey	300,000	-	550,000	(300,000)	-	550,000 ²
Justin Cameron	17,398,223	-	-	(7,740,766)	(1,200,000)	8,457,457 ³
Non-Executive Directors						
Howard McDonald	1,510,000	-	-	-	-	1,510,000
Stephen Goddard	210,000	-	-	-	-	210,000
Jane Huxley	-	-	-	15,000	-	15,000

1 Sale and purchase of shares on open market

2 Mark Storey did not hold any shares as at 24 June 2016 (the date at which he ceased employment with the Group). He was allocated 550,000 shares following cessation of his employment to satisfy the accelerated vesting of his performance rights in accordance with Mark's separation agreement.

3 Justin Cameron held 9,657,457 shares as at 16 March 2016 (the date at which he ceased employment with the Group). He subsequently forfeited 1,200,000 shares.

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.

	Held at 1 July 2015	No. granted as remuneration	Value of rights granted	No. vested	No. cancelled	No. forfeited	Held at 30 June 2016
Executive Directors							
Mike Sonand	-	1,000,000	\$170,000	-	-	-	1,000,000
Lex Pedersen	-	280,160	\$305,374	-	-	-	280,160
Justin Stone	400,000	235,231	\$256,402	-	-	-	635,231
Karen Birner	33,333	200,000	\$344,981	66,667	-	-	166,666
Mark Storey	400,000	150,000	\$258,735	550,000	-	-	-

Movements in Loan Share Holdings of KMP

The following table sets out the movement during the reporting period in the number of loan shares held directly, indirectly, or beneficially by KMP including their related parties.

	Grant date	Granted during FY16	Vested	Outstanding at year end	Forfeited	Value of loan shares at grant date	Value of loan shares included as compensation for the year
Executive Directors							
Lex Pedersen	26 Nov 2014	-	-	400,000	-	\$249,312	-
Justin Cameron ¹	26 Nov 2014	-	-	-	400,000	\$249,312	-

¹ Justin Cameron's Loan Shares were forfeited in full on 20 June 2016, in accordance with the terms of the grant.

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 FY16.

	Opening balance ¹	Advances during FY16	Other repayments during FY16	Cash repayments during FY16	Closing balance	Highest indebtedness
Lex Pedersen	\$380,000	-	-	-	\$380,000	\$380,000
Justin Cameron	\$380,000	-	-	-	- ²	\$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.

² Justin Cameron's Loan Shares were forfeited in full satisfaction of the outstanding loan balance on 20 June 2016, in accordance with the terms of the grant.

SERVICE CONTRACTS FOR EXECUTIVES

The key terms and conditions of service contracts for executives for the year ended 30 June 2016 are outlined in the table below.

(AUD)	Effective Date	Fixed Annual Remuneration ¹	Term	Executive notice period	Company notice period ²	Termination payment
Executive Directors						
Mike Sonand	9 June 2016	\$550,000 ³	Ongoing	6 months	6 months	Subject to the termination benefits cap under Corporations Act
Lex Pedersen	27 November 2014 to 13 June 2016	USD400,000	Initial term of 2 years ending Dec-16	3 months	3 months	Base salary to end of initial term
	Effective 14 June 2016	\$450,000	Ongoing	3 months	3 months	Subject to the termination benefits cap under Corporations Act
Justin Stone	16 December 2014 to 13 June 2016	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 the Corporations Act
	Effective 14 June 2016	GBP 230,000	Ongoing	3 months	3 months	Subject to the termination benefits cap under Corporations Act
Justin Cameron	27 November 2014 to 19 March 2016	\$711,750 ⁴	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 the Corporations Act
Other Executive KMP						
Karen Birner	27 November 2014	\$301,125 ⁵	Ongoing	3 months	3 months	Notice period
Mark Storey	6 July 2015	\$328,500	Ongoing	12 weeks	12 weeks	Notice period

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

2 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 performing their duties.

3 Represents Mike Sonand's fixed annual remuneration upon his appointment as CEO effective 9 June 2016.

4 Justin Cameron's fixed annual remuneration was increased from \$438,000 to \$711,750 with effect from 1 July 2015. This adjustment reflected the increasing demands on the role, the performance within the role, and comparison with external peers. Justin Cameron's employment ceased on 19 March 2016.

5 Karen Birner's fixed annual remuneration was increased from \$240,900 to \$301,125 with effect from 14 December 2015. This adjustment reflected the increasing scope and demands of the role, the performance within the role, and comparisons with internal and external peers.

NON-EXECUTIVE DIRECTOR REMUNERATION

Overview of Policy

The Board seeks to set fees for the Non-Executive Directors at a level which provides SurfStitch Group with the ability to attract and retain Directors of the highest calibre, whilst paying fees that are 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 fees for the Chairman and Non-Executive Director are reviewed annually and approved by the Board based on independent information 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.

Non-Executive Director Fees for FY16

The table below sets out the elements of Non-Executive Director fees and other benefits provided during 2016.

Fees Applicable for 2016	Chair	Member
Board	\$100,000 ¹	\$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	

- 1 The fee for the incoming Chairman Sam Weiss, will be \$185,000 per year inclusive of superannuation from 1 July 2016.

Statutory Remuneration Table

	FY	Board and Committee Fees	Non-cash benefits	Super-annuation	Total	Performance Related %
Howard McDonald	2016	92,227	-	8,676	100,903	0%
	2015	65,708	-	6,242	71,950	0%
Stephen Goddard	2016	69,171	-	6,507	75,678	0%
	2015	42,564	-	4,044	46,608	0%
Jane Huxley	2016	69,170	-	6,657	75,827	0%
	2015	3,003	-	285	3,288	0%



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 financial year ended 30 June 2016 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

A handwritten signature in black ink, appearing to read 'Julie Cleary', with a stylized flourish at the end.

Julie Cleary
Partner

Sydney
30 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2016

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (*restated)
Continuing operations			
Revenue	7	237,955	97,857
Cost of sales		(153,860)	(60,531)
Gross profit		84,095	37,326
Other income	8	146	20
Selling and distribution expenses	8	(101,268)	(44,683)
Administrative expenses	8	(49,237)	(7,424)
Impairment expenses	17 & 18	(88,999)	-
IPO costs	8	-	(6,571)
Result from operating activities		(155,263)	(21,332)
Finance income		371	138
Finance costs		(318)	(7)
Net finance income		53	131
Loss before tax		(155,210)	(21,201)
Income tax benefit	13	495	3,583
Loss from continuing operations		(154,715)	(17,618)
Discontinued operation			
Loss from discontinued operation, net of tax	6	(643)	(33,029)
Net loss attributable to the owners of SurfStitch Group Limited		(155,358)	(50,647)
Loss per share for the period attributable to the ordinary equity holders of the Company:			
Basic earnings per share (in dollars)	9	(0.60)	(0.30)
Diluted earnings per share (in dollars)	9	(0.60)	(0.30)
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	(0.60)	(0.10)
Diluted earnings per share (in dollars)	9	(0.60)	(0.10)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

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 year ended 30 June 2016

<i>In thousands of dollars</i>	2016	2015 (*restated)
Net loss for the period	(155,358)	(50,647)
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(427)	2,943
Other comprehensive income/(loss) for the period, net of tax	(427)	2,943
Total comprehensive loss for the period attributable to the owners of SurfStitch Group Limited	(155,785)	(47,704)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

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 2016

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (*restated)
Current assets			
Cash and cash equivalents	14	21,373	39,731
Trade and other receivables	15	8,991	3,086
Inventories	16	36,979	43,290
Current tax assets		24	3
Other assets		4,792	2,467
Total current assets		72,159	88,577
Non-current assets			
Deferred tax assets	13	5,592	5,809
Property, plant and equipment	17	4,405	3,304
Intangible assets	18	8,482	47,635
Goodwill	18	6,609	36,001
Total non-current assets		25,088	92,749
Total assets		97,247	181,326
Current liabilities			
Trade and other payables	20	37,004	36,281
Employee benefits	11	2,486	1,525
Income tax provision		725	1,138
Provisions	21	3,350	2,191
Deferred income		812	648
Total current liabilities		44,377	41,783
Non-current liabilities			
Deferred tax liabilities	13	2,902	5,907
Employee benefits	11	293	180
Provisions	21	880	85
Total non-current liabilities		4,075	6,172
Total liabilities		48,452	47,955
Net assets		48,795	133,371
Equity			
Share capital	19	309,090	248,325
Reserves		(54,290)	(64,307)
Retained earnings		(206,005)	(50,647)
Total equity		48,795	133,371

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5. In addition, there is change in classification of assets, further detail of which is disclosed in note 14.

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 year ended 30 June 2016

	Note	Attributable to owners of the Company						Total equity
		Share capital	Cost of share capital	Share-based payments reserve	Foreign currency translation reserve	Other equity reserve	Retained earnings	
In thousands of dollars								
Balance at 13 October 2014		-	-	-	-	-	-	-
Total comprehensive profit/(loss) for the period								
Loss for the period		-	-	-	-	-	(50,647)	(50,647)
Total other comprehensive income for the period		-	-	-	2,943	-	-	2,943
Total comprehensive loss for the period		-	-	-	2,943	-	(50,647)	(47,704)
Transactions with owners recorded directly in equity								
Issue of ordinary shares, net of transaction costs	19	252,724	(4,399)	-	-	-	-	248,325
Common control acquisition	19	-	-	-	-	(68,640)	-	(68,640)
Share-based payments	12	-	-	1,390	-	-	-	1,390
Total transactions with owners recorded directly in equity		252,724	(4,399)	1,390	-	(68,640)	-	181,075
Balance at 30 June 2015 (*restated)		252,724	(4,399)	1,390	2,943	(68,640)	(50,647)	133,371

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

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 CHANGES IN EQUITY (continued)

For the year ended 30 June 2016

	Note	Attributable to owners of the Company						Total equity
		Share capital	Cost of share capital	Share-based payments reserve	Foreign currency translation reserve	Other equity reserve	Retained earnings	
In thousands of dollars								
Balance at 1 July 2015 (*restated)		252,724	(4,399)	1,390	2,943	(68,640)	(50,647)	133,371
Total comprehensive loss for the period								
Loss for the period		-	-	-	-	-	(155,358)	(155,358)
Total other comprehensive loss for the period		-	-	-	(427)	-	-	(427)
Total comprehensive loss for the period		-	-	-	(427)	-	(155,358)	(155,785)
Transactions with owners recorded directly in equity								
Issue of ordinary shares, net of transaction costs	19	60,698	67	-	-	-	-	60,765
Transfer between reserves		-	-	2,600	-	(2,600)	-	-
Share based payments	10	-	-	10,444	-	-	-	10,444
Total transactions with owners recorded directly in equity		60,698	67	13,044	-	(2,600)	-	71,209
Balance at 30 June 2016		313,422	(4,332)	14,434	2,516	(71,240)	(206,005)	48,795

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

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 year ended 30 June 2016

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (*restated)
Cash flows from operating activities			
Cash receipts from customers		261,529	117,540
Cash paid to suppliers and employees		(290,715)	(136,485)
Cash used in operating activities		(29,186)	(18,945)
Interest paid		(318)	(7)
Income taxes paid		(907)	-
Net cash used in operating activities	28	(30,411)	(18,952)
Cash flows from investing activities			
Interest received		371	138
Acquisition of subsidiaries, net of cash acquired	5	(26,128)	(58,633)
Acquisition of property, plant and equipment		(2,856)	(626)
Disposal of property, plant and equipment		28	-
Acquisition of intangible assets		(8,036)	(2,693)
Net cash used in investing activities		(36,621)	(61,814)
Cash flows from financing activities			
Proceeds from issue of share capital	19	50,000	125,693
Transaction costs related to issue of share capital	19	(1,537)	(5,186)
Net cash generated from financing activities		48,463	120,507
Net increase/(decrease) in cash and cash equivalents		(18,569)	39,741
Cash and cash equivalents at the beginning of the period		39,731	-
Effect of movements in exchange rates on cash held		211	(10)
Cash and cash equivalents at the end of the period	14	21,373	39,731

* The above comparative information has been restated to reflect a change in classification of asset balances, further detail of which is disclosed in note 14.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2016

1. Reporting entity

SurfStitch Group Limited (the “Company”, or “SGL”) is a for-profit company which is incorporated and domiciled in Australia.

These consolidated financial statements (“financial statements”) as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (collectively referred to as the “Group”). The comparative period was from 13 October 2014 (date of incorporation) to 30 June 2015.

These financial statements were authorised for issue by the Board of Directors on 30 August 2016.

2. Statement of compliance

The 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 (Cth). The financial statements comply with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”).

3. Significant accounting policies

This section sets out the significant accounting policies upon which the financial statements are prepared as a whole. Specific accounting policies are described in their respective notes to the financial statements. This section also shows information on new accounting standards, amendments and interpretations, and whether they are effective in the current or later years.

Basis of preparation

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

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 1 April 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The financial statements have been prepared on the historical cost basis.

The accounting policies have been consistently applied to all periods presented in these financial statements, unless otherwise stated.

Certain comparative amounts have been reclassified to conform to the current period’s presentation to better reflect the economic nature of the financial position and performance of the Group.

Basis of consolidation

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

3. Significant accounting policies (continued)

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 average exchange rate of the month in which the transaction occurs.

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.

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 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.

Use of judgements and estimates

In preparing these 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 accounting for business combinations at fair value at acquisition date. Further detail is disclosed in note 5.

(ii) Estimates

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, including information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ending 30 June 2016 are included in the following notes:

- Note 5 – acquisition of subsidiaries: fair value measured on a provisional basis;
- Note 13 – recognition of deferred tax assets: availability of future taxable profit against which carried forward tax losses can be used;
- Note 16 – measurement of inventory at net realisable value: forward estimates on selling price and costs to sell inventory;
- Note 18 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

3. Significant accounting policies (continued)

Use of judgements and estimates (continued)

(ii) Estimates (continued)

- Notes 21 and 26 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

(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.

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 2016, and have not been applied in preparing these 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 *Financial Instruments* becomes mandatory for the Group's 2019 financial statements and includes changes to the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment. It also includes a new hedge accounting model to simplify hedge accounting requirements and more closely align hedge accounting with risk management activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(ii) AASB 15 Revenue from contracts with customers

AASB 15 *Revenue from Contracts* becomes mandatory for the Group's 2019 financial statements and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue*, Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for Construction of Real Estate*, Interpretation 18 *Transfer of Assets from Customers* and Interpretation 131 *Revenue-Barter Transactions involving Advertising Services*. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(iii) AASB 16 Leases

AASB 16 *Leases* becomes mandatory for the Group's 2020 financial statements and removes the classification of leases between finance and operating leases, effectively treating all leases as finance leases for the lessee. The purpose is to provide greater transparency of a lessee's financial leverage and capital employed.

The Group has not yet determined the potential effect of these standards of the Group's future financial statements.

4. Operating segments

Basis for segmentation

As at 30 June 2016, the Group has 5 reportable segments being Asia-Pacific Retail, Europe Retail, North America Retail, Media & Production and Surf Hardware. The operations of the Retail Division are managed by geographic area and brand.

Each segment has individual management teams and marketing strategies with information reported to the chief operating decision maker (Mike Sonand, Chief Executive Officer) on this basis.

The inclusion of 5 reportable segments is a change from the 3 reportable segments featured in the prior period financial statements and the comparative data has been restated to reflect the current period segments.

The following summary describes the operations of each reportable segment.

- Asia-Pacific Retail – Action sports and youth culture apparel online retailer in Australia and New Zealand, represented by SurfStitch;
- Europe Retail – Action sports and youth culture apparel online retailer in Europe, currently represented by SurfDome and the Magicseaweed retail operations. It was previously also represented by SurfStitch Europe (now a discontinued operation);
- North America Retail – Action sports and youth culture apparel online retailer in the U.S.A., represented by Swell;
- Media & Production – Action sports media, production and utilities platforms; and
- Surf Hardware – designer, marketer and distributor of water board sports products and accessories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

4. Operating segments (continued)

Information about reportable segments

Information related to each reportable segment is set out in the tables 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.

<i>In thousands of dollars</i>	2016					
	Retail			Media & Production	Surf Hardware	Total
	Asia-Pacific	Europe ⁽¹⁾	North America			
External revenue	83,820	101,023	25,519	5,169	22,424	237,955
Intersegment revenue	-	3,059	86	(555)	390	2,980
Total segment revenue	83,820	104,082	25,605	4,614	22,814	240,935
Segment gross profit	32,134	36,786	2,529	4,444	8,143	84,036
Depreciation & amortisation	(4,907)	(4,752)	(5,232)	(998)	(273)	(16,162)
Impairment expense ⁽²⁾	(22,419)	(31,582)	(6,647)	(21,724)	(6,478)	(88,850)

<i>In thousands of dollars</i>	2015 (*restated)					
	Retail			Media & Production	Surf Hardware	Total
	Asia-Pacific	Europe ⁽¹⁾	North America			
External revenue	42,476	43,641	15,568	337	-	102,022
Intersegment revenue	-	449	-	-	-	449
Total segment revenue	42,476	44,090	15,568	337	-	102,471
Segment gross profit	16,355	11,797	5,894	467	-	34,513
Depreciation & amortisation	(2,575)	(3,325)	(1,028)	(16)	-	(6,944)
Impairment expense ⁽²⁾	-	(19,702)	-	-	-	(19,702)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

⁽¹⁾ This reportable segment includes the operating results of SurfStitch (Europe) Limited ("SurfStitch Europe") which was discontinued during the prior period. Further detail is disclosed in note 6.

⁽²⁾ Impairment expense relates to the write-off of goodwill, intangible assets and property, plant and equipment. Further detail is disclosed in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

4. Operating segments (continued)

Information about reportable segments (continued)

In thousands of dollars	2016					
	Retail			Media & Production	Surf Hardware	Total
	Asia-Pacific	Europe ⁽¹⁾	North America			
Segment assets	23,599	27,633	6,078	1,529	24,435	83,274
Segment liabilities	(17,199)	(45,856)	(38,551)	(4,688)	(5,725)	(112,019)
Segment net assets	6,400	(18,223)	(32,473)	(3,159)	18,710	(28,745)

In thousands of dollars	2015 (*restated)					Total
	Retail			Media & Production	Surf Hardware	
	Asia-Pacific	Europe ⁽¹⁾	North America			
Segment assets	51,791	70,626	23,410	2,744	-	148,571
Segment liabilities	(17,300)	(36,701)	(25,829)	(622)	-	(80,452)
Segment net assets	34,491	33,925	(2,419)	2,122	-	68,119

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

⁽¹⁾ This reportable segment includes the operating results of SurfStitch (Europe) Limited ("SurfStitch Europe") which was discontinued during the prior period. Further detail is disclosed in note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

4. Operating segments (continued)

Reconciliations of information on reportable segments to IFRS measures

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (*restated)
(i) Revenues			
Total revenue for reportable segments		240,935	102,471
Less revenue eliminated upon consolidation		(2,980)	(449)
Less revenue from discontinued operation	6	-	(4,165)
Consolidated revenue from continuing operations		237,955	97,857
(ii) Gross profit			
Total gross profit for reportable segments		84,036	34,513
Less gross loss from discontinued operation		59	2,813
Consolidated gross profit from continuing operations		84,095	37,326
(iii) Assets			
Total assets for reportable segments		83,274	148,571
Corporate cash assets		9,738	30,520
Other corporate assets		4,235	2,235
Consolidated total assets		97,247	181,326
(iv) Liabilities			
Total liabilities for reportable segments		112,019	80,452
Less related party payables to corporate entities eliminated upon consolidation		(67,013)	(34,014)
Corporate liabilities		3,446	1,517
Consolidated total liabilities		48,452	47,955

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

4. Operating segments (continued)

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.

<i>In thousands of dollars</i>	2016	2015 (*restated)
(i) Revenues		
Australia	94,638	42,603
All foreign countries		
United States of America	35,422	15,625
United Kingdom	102,599	39,629
France	5,296	4,165
Consolidated revenue	237,955	102,022
(ii) Non-current assets		
Australia	21,125	75,048
All foreign countries		
United States of America	103	11,307
United Kingdom	3,702	6,348
France	158	46
Consolidated total non-current assets	25,088	92,749
(iii) Capital additions		
Australia	3,822	6,812
All foreign countries		
United States of America	1,443	1,464
United Kingdom	5,627	5,202
France	-	2,812
Consolidated total capital additions	10,892	16,290

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

Major customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries

Internal restructure

On 15 December 2014, an internal restructure was executed in preparation for the listing of the Company on the Australian Securities Exchange. This resulted in the Company becoming the legal parent of SurfStitch Holdings Pty Limited ("SHPL") which is the legal parent of all other Group subsidiaries.

At the time, the Directors elected to account for the restructure as a capital re-organisation rather than a business combination, and as such, the Group's last annual consolidated financial statements were presented as a continuation of the pre-existing accounting values of assets and liabilities in SHPL financial statements

During the financial year ended 30 June 2016, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed in relation to business combinations that occurred shortly prior to the internal restructure. This valuation revealed the net identifiable assets as being valued at higher than the provisional fair value and as a result, the goodwill acquired as part of the internal restructure has subsequently decreased.

The identified adjustments to the fair value of identifiable assets acquired and liabilities assumed are set out in the table below.

<i>In thousands of dollars</i>	Provisional amount	Adjustments	Final amount
Brands & trademarks	15	17,089	17,104
Website & software	6,660	8,666	15,326
Deferred tax assets/(liabilities)	890	(4,070)	(3,180)
Trade and other payables	(23,675)	(150)	(23,825)
Goodwill	53,716	(22,665)	31,051
Other equity reserve	67,510	1,130	68,640

The comparative information shown in the financial statements has been restated to include the adjusted fair value of identifiable assets acquired and liabilities assumed.

The profit or loss impact to the comparative period for additional amortisation is a loss of \$2,225,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries (continued)

Acquisition of Surfdome Shop Limited

On 16 December 2014, the Group acquired 100% of the shares and voting interests in Surfdome Shop Limited ("Surfdome").

During the financial year ended 30 June 2016, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed in the Surfdome acquisition. This valuation revealed the net identifiable assets as being valued at higher than the provisional fair value and as a result, the goodwill acquired as part of the acquisition has subsequently decreased.

The identified adjustments to the fair value of identifiable assets acquired and liabilities assumed are set out in the table below.

<i>In thousands of dollars</i>	Provisional amount	Adjustments	Final amount
Brands & trademarks	39	8,326	8,365
Website & software	2,561	4,292	6,853
Deferred tax assets/(liabilities)	566	(1,673)	(1,107)
Goodwill	30,557	(10,945)	19,612

The comparative information shown in the financial statements has been restated to include the adjusted fair value of identifiable assets acquired and liabilities assumed.

The profit or loss impact to the comparative period for additional amortisation is a loss of \$1,061,000.

Acquisition of Magicseaweed Limited

On 22 May 2015, the Group acquired 100% of the share capital in Magicseaweed Limited and its controlled entities (collectively "Magicseaweed").

During the financial year ended 30 June 2016, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed in the Magicseaweed acquisition. This valuation revealed the net identifiable assets as being valued at higher than the provisional fair value and as a result, the goodwill acquired as part of the acquisition has subsequently decreased.

The identified adjustments to the fair value of identifiable assets acquired and liabilities assumed are set out in the table below.

<i>In thousands of dollars</i>	Provisional amount	Adjustments	Final amount
Trade and other receivables	66	(3)	63
Brands & trademarks	-	1,331	1,331
Website & software	-	1,741	1,741
Goodwill	6,997	(3,069)	3,928

The comparative information shown in the financial statements has been restated to include the adjusted fair value of identifiable assets acquired and liabilities assumed.

The profit or loss impact to the comparative period for additional amortisation is a loss of \$62,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries (continued)

Acquisition of Rollingyouth Pty Limited

On 22 May 2015, the Group acquired 100% of the share capital in Rollingyouth Pty Limited and its controlled entities (collectively "Rollingyouth").

During the financial year ended 30 June 2016, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed in the Rollingyouth acquisition. This valuation revealed the net identifiable assets as being valued at higher than the provisional fair value and as a result, the goodwill acquired as part of the acquisition has subsequently decreased.

The identified adjustments to the fair value of identifiable assets acquired and liabilities assumed are set out in the table below.

<i>In thousands of dollars</i>	Provisional amount	Adjustments	Final amount
Brands & trademarks	-	358	358
Website & software	-	667	667
Deferred tax liabilities	-	(107)	(107)
Goodwill	1,980	(918)	1,062

The comparative information shown in the financial statements has been restated to include the adjusted fair value of identifiable assets acquired and liabilities assumed.

The profit or loss impact to the comparative period for additional amortisation is a loss of \$22,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries (continued)

Acquisition of Garage Entertainment Aust Pty Limited

On 11 November 2015, the Group acquired 100% of the share capital in Garage Entertainment Aust Pty Limited and TMG Media Pty Limited (collectively "Garage Entertainment") for total consideration of \$13,198,000. Garage Entertainment produces and digitally distributes premium action and extreme sports long form films and television content. Garage Entertainment's full media and content spectrum supported the Group's strategy of becoming a destination site for customers to connect with everything action sports related and engage across all platforms. The acquisition of Garage Entertainment consolidates the Group's digital ecosystem. By leveraging relevant content to attract and retain a rapidly evolving and increasingly sophisticated customer base, the Group aims to significantly enhance its customer engagement levels.

During the period from acquisition through to 30 June 2016, Garage Entertainment contributed revenue of \$1,200,000 and a loss before tax of \$1,075,000 to the Group's results. Had the results of Garage Entertainment been included from the beginning of the financial year, it would have contributed revenue of \$1,543,000 and a loss before tax of \$1,198,000 to the Group's results.

(i) Acquisition costs

Acquisition costs of \$326,000 were expensed in the consolidated statement of profit and loss in relation to acquisition of Garage Entertainment.

(ii) Consideration transferred

The acquisition-date fair value of the consideration transferred comprised cash of \$2,500,000 and equity instruments in SGL of \$10,698,000. The fair value of the ordinary shares issued was based on the listed share price of the Company at 11 November 2015 of \$1.91 per share.

<i>In thousands of dollars</i>	Provisional amount
Cash	2,500
Equity instruments	10,698
Total consideration transferred	13,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries (continued)

Acquisition of Garage Entertainment (continued)

(iii) Identifiable assets required and liabilities assumed

A summary of the recognised amounts of assets acquired and liabilities assumed at the acquisition date are set out in the table below.

<i>In thousands of dollars</i>	Provisional amount
Identifiable assets	
Cash and cash equivalents	8
Trade and other receivables	52
Other assets	66
Property, plant and equipment	31
Brands & trademarks	7
Website & software	704
Deferred tax assets	655
Total identifiable assets acquired	1,523
Identifiable liabilities	
Trade and other payables	264
Employee benefits	42
Total identifiable liabilities assumed	306
Net identifiable assets assumed	1,217

At acquisition date, management measured the assets and liabilities acquired at fair value with the remainder of the purchase consideration being allocated to goodwill. The fair value of Garage Entertainment's intangible assets has been measured provisionally pending completion of an independent valuation. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the accounting for the acquisition will be revised.

(iv) Goodwill

Goodwill arising from the acquisition has been recognised as set out in the table below.

<i>In thousands of dollars</i>	Provisional amount
Consideration transferred	13,198
Fair value of identifiable net assets	(1,217)
Goodwill	11,981

At 30 June 2016, following an on-going strategic review, impairment testing was performed and it was determined that \$11,981,000 of the goodwill in Garage Entertainment, \$760,000 of its intangible assets and \$17,000 of its property, plant and equipment were impaired. Further detail is disclosed in notes 17 and 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries (continued)

Acquisition of SHI Holdings Pty Limited

On 3 December 2015, the Group acquired 100% of the share capital in SHI Holdings Pty Limited and its controlled entities (collectively "Surf Hardware") for total consideration of \$24,259,000. Surf Hardware is a global designer, marketer and distributor of innovative and high performance water board sports products and accessories. The acquisition of Surf Hardware strategically aligned with the Group's core objective to create an environment capable of capturing and influencing customers at all points of the surf and action sports lifestyle cycle. Surf Hardware's products engage with all major stakeholders throughout the Group's business model, creating a highly beneficial and virtuous cycle. Surf Hardware's products and content will be leveraged across the Group's media platforms and be monetised through the Group's eCommerce platform.

During the period from acquisition through to 30 June 2016, Surf Hardware contributed revenue of \$22,813,000 and a profit before tax of \$2,030,000 to the Group's results. Had the results of Surf Hardware been included from the beginning of the financial year, it would have contributed revenue of \$38,164,000 and a profit before tax of \$1,888,000 to the Group's results.

(i) Acquisition costs

Acquisition costs of \$427,000 were expensed in the consolidated statement of profit or loss in relation to acquisition of Surf Hardware.

(ii) Consideration transferred

The acquisition-date fair value of the consideration transferred comprised cash of \$24,259,000.

(iii) Identifiable assets required and liabilities assumed

A summary of the recognised amounts of assets acquired and liabilities assumed at the acquisition date are set out in the table below.

<i>In thousands of dollars</i>	Provisional amount
Identifiable assets	
Cash and cash equivalents	623
Trade and other receivables	5,263
Inventories	7,992
Other assets	594
Property, plant and equipment	1,017
Brands & trademarks	681
Deferred tax assets	317
Total identifiable assets acquired	16,487
Identifiable liabilities	
Trade and other payables	3,383
Employee benefits	659
Provisions	343
Income tax provision	892
Deferred tax liabilities	38
Total identifiable liabilities assumed	5,315
Net identifiable assets assumed	11,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

5. Internal restructure and acquisition of subsidiaries (continued)

Acquisition of SHI Holdings Pty Limited (continued)

(iii) Identifiable assets required and liabilities assumed (continued)

Management have measured the assets and liabilities acquired at fair value with the remainder of the purchase consideration being allocated to goodwill. The fair value of Surf Hardware's intangible assets has been measured provisionally pending completion of an independent valuation. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the accounting for the acquisition will be revised.

(iv) Goodwill

Goodwill arising from the acquisition has been recognised as set out in the table below.

<i>In thousands of dollars</i>	Provisional amount
Consideration transferred	24,259
Fair value of identifiable net assets	(11,172)
Goodwill	13,087

At 30 June 2016, following an on-going strategic review, impairment testing was performed and it was determined that \$5,324,000 of the goodwill in Surf Hardware was impaired. Further detail is disclosed in note 18.

Significant accounting policies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

6. Discontinued operation

The Group ceased operations of SurfStitch Europe including its website and related business in April 2015, and it is considered a discontinued operation. Prior to this, SurfStitch Europe was not classified as held-for-sale or as a discontinued operation.

Results of discontinued operation

<i>In thousands of dollars</i>	2016	2015
Revenue	-	4,165
Expenses	(643)	(17,492)
Impairment expense	-	(19,702)
Loss from operating activities before tax	(643)	(33,029)
Income tax	-	-
Loss from operating activities after tax	(643)	(33,029)
Loss per share (in dollars)	(0.00)	(0.20)
Diluted loss per share (in dollars)	(0.00)	(0.20)

The loss from the discontinued operation is attributable entirely to the owners of the Company.

Cash flows used in discontinued operation

<i>In thousands of dollars</i>	2016	2015
Net cash used in operating activities	(635)	(12,393)
Net cash flows for the period	(635)	(12,393)

Significant accounting policies

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 other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

7. Revenue

	2016			2015		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
<i>In thousands of dollars</i>						
Sale of goods	232,340	-	232,340	97,520	4,165	101,685
Media & production revenue	5,615	-	5,615	337	-	337
Total revenue	237,955	-	237,955	97,857	4,165	102,022

Significant accounting policies

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.

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.

Sale of goods - wholesale

The Group operates a wholesale sales division that manufactures and sells surfing hardware products and accessories.

Revenue is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered to have passed to the buyer at the time when the goods are dispatched.

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.

Licence revenue

Licence revenue generated from granting third party access to the Group's digital content is recognised in profit or loss on a straight line basis over the licence term. Where the licence term is perpetual, the revenue is recognised in full once access has been granted to the content.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

8. Income and expenses

Other income

<i>In thousands of dollars</i>	2016	2015
Unrealised foreign currency gains (<i>net</i>)	54	(10)
Realised foreign currency gains (<i>net</i>)	(259)	-
Gain on disposal of property, plant and equipment (<i>net</i>)	(17)	9
Expense recoveries	258	-
Sundry income	110	21
Total other income	146	20

Expenses by nature

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (* restated)
Advertising & promotion		24,237	8,880
Amortisation	18	14,379	5,402
Depreciation	17	1,827	575
Distribution costs		20,215	10,070
Employee entitlements	12	47,020	18,286
Rent	24	6,450	1,936
Transaction fees		6,506	3,183
Website costs		6,301	2,221
Other expenses		23,570	8,125
Total selling, distribution, administrative and IPO expenses		150,505	58,678

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

Significant accounting policies

Depreciation and amortisation

Details about depreciation expense are disclosed in note 17 and details about amortisation expense are disclosed in note 18.

Employee benefits

Details about employee share-based payments are disclosed in note 10, details about employee provisions are disclosed in note 11, and details about employee benefits expense are disclosed in note 12.

Leases

Details about rent expense are disclosed in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

9. Earnings per share

The calculation of basic earnings per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

Loss attributable to ordinary shareholders

<i>In thousands of dollars</i>	2016			2015 (*restated)		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
Loss for the period, attributable to the owners of the Company	(154,715)	(643)	(155,358)	(17,618)	(33,029)	(50,647)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

Weighted-average number of ordinary shares

<i>In number of shares</i>	Note	2016	2015
Issued ordinary shares at beginning of the period	19	242,475,968	2
Effect of shares issued for cash as part of IPO	19	-	83,192,359
Effect of shares issued for consideration of purchase of SHPL	19	-	130,909,374
Effect of shares issued for consideration of purchase of Garage Entertainment	19	5,600,934	-
Effect of other shares issued for cash	19	25,000,000	28,333,499
Effect of shares issued under share-payment arrangements	19	3,500,502	40,734
Total number of ordinary shares at end of the period		276,577,404	242,475,968
Weighted average number of ordinary shares at end of the period		261,101,822	166,152,044

Earnings per share

<i>In thousands of dollars</i>	2016			2015 (*restated)		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
Basic loss per share (in dollars)	(0.60)	(0.00)	(0.60)	(0.10)	(0.20)	(0.30)
Diluted loss per share (in dollars)	(0.60)	(0.00)	(0.60)	(0.10)	(0.20)	(0.30)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

Basic earnings per share is calculated as earnings for the period attributable to the Company over the weighted average number of shares.

Diluted earnings per share is calculated as earnings for the period attributable to the Company over the weighted average number of shares which has been adjusted to reflect the number of shares which would be issued if outstanding options and performance rights were to be exercised. However due to the statutory loss attributable to the Company for both the financial year ended 30 June 2016 and the comparative period ended 30 June 2015, the effect of these instruments have been excluded from the calculations of diluted earnings per share for both periods as they would reduce the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements

At 30 June 2016, the Group had the following share-based payment arrangements:

Loan shares

Prior to listing, SHPL granted loans of \$380,000 each to two executive directors to each acquire 400,000 loan shares. On completion of the IPO, these loan shares transferred to SGL.

The loans are limited recourse in nature and will be forgiven in direct proportion to the vesting of the loan shares.

(i) Loan share details

The following are the key service, performance and vesting conditions attached to the loan shares.

Grant date	26-Nov-14
Vesting date - <i>Tranche 1</i>	31-Dec-17
Vesting percentage - <i>Tranche 1</i>	60%
Vesting date - <i>Tranche 2</i>	31-Dec-18
Vesting percentage - <i>Tranche 2</i>	20%
Vesting date - <i>Tranche 3</i>	31-Dec-19
Vesting percentage - <i>Tranche 3</i>	20%
Service condition *	Yes
Performance condition +	TSR
Expense recognised in period based on grant date fair value	\$28,840
Equity instrument rights	800,000

* Must remain continuously employed by SGL or a Group company until the end of the relevant vesting period.

+ The vesting conditions of *Tranche 1* include a performance hurdle relating to the Group's TSR from listing date to 30 June 2017.

(ii) Loan shares on issue

The number of loan shares on issue during the year is set out in the table below.

In number of shares	Loan shares
Outstanding at 1 July 2015	800,000
Granted during the period	-
Forfeited during the period	(400,000)
Exercised during the period	-
Expired during the period	-
Outstanding at 30 June 2016	400,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Loan shares (continued)

(iii) Measurement of fair values

The fair value of loan shares has been measured using a Monte Carlo simulation model. The inputs used in the measurement of the fair values at grant date are set out in the following table.

Grant date	26-Nov-14
Fair value at grant date - <i>Tranche 1</i>	\$0.62
Fair value at grant date - <i>Tranche 2</i>	\$0.62
Fair value at grant date - <i>Tranche 3</i>	\$0.63
Share price at grant date	\$1.00
Expected volatility (weighted average)	38.3%
Risk-free interest rate	2.72%
Vesting date 1 - <i>Tranche 1</i>	31-Dec-17
Vesting percentage 1 - <i>Tranche 1</i>	60%
Vesting date 2 - <i>Tranche 2</i>	31-Dec-18
Vesting percentage 2 - <i>Tranche 2</i>	20%
Vesting date 3 - <i>Tranche 3</i>	31-Dec-19
Vesting percentage 3 - <i>Tranche 3</i>	20%

Given the Company was not listed at grant date, expected volatility has been based on an evaluation of the historical volatility of the share price of a group of comparable companies, particularly over the historical period commensurate with the expected term. The risk free rate represents the government bond rate commensurate with term of vesting period.

Performance rights

Prior to the IPO, SHPL issued performance rights in two grants to an executive director and members of the management team. Following completion of the IPO these rights transferred to SGL.

Following the IPO, SGL issued performance rights across 4 grants to an executive director, members of the management team and some employees.

(i) Performance rights details

The following are the key service, performance and vesting conditions attached to the rights.

	Grant 1 ⁽¹⁾	Grant 2 ⁽¹⁾	Grant 3	Grant 4	Grant 5
Grant date	26-Nov-14	26-Nov-14	16-Dec-14	18-Mar-15	23-Jun-15
Vesting date - <i>Tranche 1</i>	31-Dec-17	16-Dec-14	31-Dec-17	18-Mar-15	22-Dec-15
Vesting percentage - <i>Tranche 1</i>	60%	33%	60%	33%	33%
Vesting date - <i>Tranche 2</i>	31-Dec-18	16-Dec-17	31-Dec-18	16-Dec-17	22-Dec-16
Vesting percentage - <i>Tranche 2</i>	20%	67%	20%	67%	33%
Vesting date - <i>Tranche 3</i>	31-Dec-19	-	31-Dec-19	-	22-Dec-17
Vesting percentage - <i>Tranche 3</i>	20%	-	20%	-	33%
Service condition *	Yes	Yes	Yes	Yes	Yes
Performance condition *	TSR	No	TSR	No	No
Expense recognised in period based on grant date fair value	\$207,551	\$192,902	\$115,867	\$0	\$8,361
Equity instruments	400,000	1,192,142	670,000	9,372	15,231

⁽¹⁾ Given the Company was not listed at grant date, expected volatility has been based on an evaluation of the historical volatility of the share price of a group of comparable companies, particularly over the historical period commensurate with the expected term. The risk free rate represents the government bond rate commensurate with term of vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Performance rights (continued)

(i) Performance rights details (continued)

	Grant 6	Grant 7	Grant 8	Grant 9	Grant 10
Grant date	23-Jun-15	26-Oct-15	22-Dec-15	22-Dec-15	22-Dec-15
Vesting date - <i>Tranche 1</i>	23-Jun-15	27-Oct-15	8-Jan-16	2-Nov-16	2-Nov-16
Vesting percentage - <i>Tranche 1</i>	33%	33%	33%	50%	50%
Vesting date - <i>Tranche 2</i>	31-Dec-17	26-Oct-16	2-Nov-16	2-Nov-17	2-Nov-17
Vesting percentage - <i>Tranche 2</i>	67%	33%	33%	50%	50%
Vesting date - <i>Tranche 3</i>	-	26-Oct-17	2-Nov-17	-	-
Vesting percentage - <i>Tranche 3</i>	-	34%	34%	-	-
Service condition *	Yes	Yes	Yes	Yes	Yes
Performance condition +	No	No	No	No	Yes
Expense recognised in period based on grant date fair value	\$2,338	\$1,112,227	\$237,484	\$146,913	\$178,076
Equity instruments	112,830	891,800	200,000	1,025,000	1,000,000

	Grant 11	Grant 12	Grant 13	Grant 14	Grant 15
Grant date	10-Nov-15	31-Jul-15	31-Aug-15	26-Oct-15	26-Oct-15
Vesting date - <i>Tranche 1</i>	30-Jun-18	1-Aug-15	1-Mar-16	27-Oct-15	27-Oct-15
Vesting percentage - <i>Tranche 1</i>	100%	33%	33%	33%	33%
Vesting date - <i>Tranche 2</i>	-	16-Dec-17	1-Mar-17	17-Dec-17	17-Dec-17
Vesting percentage - <i>Tranche 2</i>	-	67%	33%	67%	67%
Vesting date - <i>Tranche 3</i>	-	-	1-Mar-18	-	-
Vesting percentage - <i>Tranche 3</i>	-	-	34%	-	-
Service condition *	Yes	Yes	Yes	Yes	Yes
Performance condition +	Yes	No	No	No	No
Expense recognised in period based on grant date fair value	\$127,701	\$120,126	\$13,522	\$28,176	\$4,696
Equity instruments	860,621	110,000	11,864	30,000	5,000

	Grant 16	Grant 17	Grant 18	Grant 19	Grant 20
Grant date	26-Oct-15	18-Dec-15	12-Feb-16	12-Feb-16	12-Feb-16
Vesting date - <i>Tranche 1</i>	27-Oct-15	1-Mar-16	1-Dec-16	4-Jan-17	4-Jan-17
Vesting percentage - <i>Tranche 1</i>	33%	33%	33%	33%	50%
Vesting date - <i>Tranche 2</i>	17-Dec-17	1-Mar-17	1-Dec-17	4-Jan-18	4-Jan-18
Vesting percentage - <i>Tranche 2</i>	67%	33%	33%	33%	50%
Vesting date - <i>Tranche 3</i>	-	1-Mar-18	1-Dec-18	4-Jan-19	-
Vesting percentage - <i>Tranche 3</i>	-	34%	33%	33%	-
Service condition *	Yes	Yes	Yes	Yes	Yes
Performance condition +	No	No	No	No	No
Expense recognised in period based on grant date fair value	\$9,392	\$290,910	\$3,368	\$8,281	\$12,107
Equity instruments	10,000	249,999	7,500	20,000	150,000

* Must remain continuously employed by SGL or a Group company until the end of the relevant vesting period.

+ The vesting conditions of *Tranche 1* include a performance hurdle relating to the Group's TSR from listing date to 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Performance rights (continued)

(i) Performance rights details (continued)

	Grant 21	Grant 22	Grant 23	Grant 24	Grant 25
Grant date	15-Apr-16	22-Apr-16	21-Jun-16	28-Jan-16	15-Jan-16
Vesting date - <i>Tranche 1</i>	31-Jan-17	31-Jan-17	31-Aug-19	1-Feb-16	22-Jul-16
Vesting percentage - <i>Tranche 1</i>	100%	100%	100%	50%	33%
Vesting date - <i>Tranche 2</i>	-	-	-	24-Feb-17	22-Jul-17
Vesting percentage - <i>Tranche 2</i>	-	-	-	25%	33%
Vesting date - <i>Tranche 3</i>	-	-	-	24-Feb-18	22-Jul-18
Vesting percentage - <i>Tranche 3</i>	-	-	-	25%	33%
Service condition *	Yes	Yes	Yes	Yes	Yes
Performance condition +	No	No	Yes	No	No
Expense recognised in period based on grant date fair value	\$30,912	\$32,128	\$1,312	\$683,101	\$11,719
Equity instruments	104,000	115,000	1,000,000	600,000	15,000

	Grant 26	Grant 27	Grant 28	Grant 29
Grant date	15-Apr-16	4-Jan-16	15-Apr-16	15-Apr-16
Vesting date - <i>Tranche 1</i>	5-Jan-17	4-Jan-17	4-Jan-17	17-Apr-16
Vesting percentage - <i>Tranche 1</i>	33%	33%	33%	33%
Vesting date - <i>Tranche 2</i>	5-Jan-18	4-Jan-18	4-Jan-18	17-Dec-17
Vesting percentage - <i>Tranche 2</i>	33%	33%	33%	67%
Vesting date - <i>Tranche 3</i>	7-Jan-19	4-Jan-19	4-Jan-19	-
Vesting percentage - <i>Tranche 3</i>	33%	33%	33%	-
Service condition *	Yes	Yes	Yes	Yes
Performance condition +	No	No	No	No
Expense recognised in period based on grant date fair value	\$10,720	\$28,254	\$10,754	\$5,536
Equity instruments	50,000	50,000	50,000	10,000

* Must remain continuously employed by SGL or a Group company until the end of the relevant vesting period.

+ The vesting conditions of *Tranche 1* include a performance hurdle relating to the Group's TSR from listing date to 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Performance rights (continued)

(ii) Performance rights on issue

The number of performance rights on issue during the year is set out in the tables below.

<i>In number of shares</i>	Grant 1	Grant 2	Grant 3	Grant 4	Grant 5
Outstanding at 1 July 2015	400,000	656,833	670,000	6,248	15,231
Granted during the period	-	-	-	-	-
Forfeited during the period	-	(53,055)	-	(6,248)	(10,154)
Exercised during the period	(400,000)	-	-	-	(5,077)
Expired during the period	-	-	-	-	-
Outstanding at 30 June 2016	-	603,778	670,000	-	-

<i>In number of shares</i>	Grant 6	Grant 7	Grant 8	Grant 9	Grant 10
Outstanding at 1 July 2015	75,220	-	-	-	-
Granted during the period	-	891,800	200,000	1,025,000	1,000,000
Forfeited during the period	(71,887)	(7,666)	-	(200,000)	-
Exercised during the period	-	(397,267)	(66,666)	-	-
Expired during the period	-	-	-	-	-
Outstanding at 30 June 2016	3,333	486,867	133,334	825,000	1,000,000

<i>In number of shares</i>	Grant 11	Grant 12	Grant 13	Grant 14	Grant 15
Outstanding at 1 July 2015	-	-	-	-	-
Granted during the period	860,621	110,000	11,864	30,000	5,000
Forfeited during the period	(345,230)	-	-	-	-
Exercised during the period	-	(36,667)	(3,915)	(10,000)	(1,667)
Expired during the period	-	-	-	-	-
Outstanding at 30 June 2016	515,391	73,333	7,949	20,000	3,333

<i>In number of shares</i>	Grant 16	Grant 17	Grant 18	Grant 19	Grant 20
Outstanding at 1 July 2015	-	-	-	-	-
Granted during the period	10,000	249,999	7,500	20,000	150,000
Forfeited during the period	-	-	-	-	-
Exercised during the period	(3,333)	(83,333)	-	-	-
Expired during the period	-	-	-	-	-
Outstanding at 30 June 2016	6,667	166,666	7,500	20,000	150,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Performance rights (continued)

(ii) Performance rights on issue (continued)

<i>In number of shares</i>	Grant 21	Grant 22	Grant 23	Grant 24	Grant 25
Outstanding at 1 July 2015	-	-	-	-	-
Granted during the period	104,000	115,000	1,000,000	600,000	15,000
Forfeited during the period	(15,000)	-	-	-	-
Exercised during the period	-	-	-	(300,000)	-
Expired during the period	-	-	-	-	-
Outstanding at 30 June 2016	89,000	115,000	1,000,000	300,000	15,000

<i>In number of shares</i>	Grant 26	Grant 27	Grant 28	Grant 29
Outstanding at 1 July 2015	-	-	-	-
Granted during the period	50,000	50,000	50,000	10,000
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	(3,333)
Expired during the period	-	-	-	-
Outstanding at 30 June 2016	50,000	50,000	50,000	6,667

(iii) Measurement of fair values

The fair value of performance rights has been measured using a Black Scholes valuation model. The inputs used in the measurement of the fair values at grant date are set out in the following tables.

	Grant 1	Grant 2	Grant 3	Grant 4	Grant 5
Grant date	26-Nov-14	26-Nov-14	16-Dec-14	18-Mar-15	23-Jun-15
Fair value at grant date - <i>Tranche 1</i>	\$0.62	\$1.00	\$0.62	\$1.39	\$1.75
Fair value at grant date - <i>Tranche 2</i>	\$0.62	\$1.00	\$0.62	\$1.39	\$1.75
Fair value at grant date - <i>Tranche 3</i>	\$0.63	-	\$0.63	-	\$1.75
Share price at grant date	\$1.00	\$1.00	\$1.00	\$1.39	\$1.75
Expected volatility (weighted average)	38.3%	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	2.85%	2.73%	2.85%	2.33%	2.42%
Vesting period - <i>Tranche 1</i>	3 years	1 month	3 years	Nil	6 months
Vesting period - <i>Tranche 2</i>	4 years	3 years	4 years	3 years	2 years
Vesting period - <i>Tranche 3</i>	5 years	N/a	5 years	N/a	3 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Performance rights (continued)

(iii) Measurement of fair values (continued)

	Grant 6	Grant 7	Grant 8	Grant 9	Grant 10
Grant date	23-Jun-15	26-Oct-15	22-Dec-15	22-Dec-15	22-Dec-15
Fair value at grant date - <i>Tranche 1</i>	\$1.75	\$1.72	\$1.89	\$0.36	\$0.36
Fair value at grant date - <i>Tranche 2</i>	\$1.75	\$1.72	\$1.89	\$0.48	\$0.48
Fair value at grant date - <i>Tranche 3</i>	-	\$1.72	\$1.89	-	-
Share price at grant date	\$1.75	\$1.72	\$1.89	\$1.89	\$1.89
Expected volatility (weighted average)	38.3%	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	2.47%	2.06%	1.96%	2.00%	2.00%
Vesting period - <i>Tranche 1</i>	Nil	Nil	1 month	1 month	1 month
Vesting period - <i>Tranche 2</i>	3 years	1 year	1 year	2 years	2 years
Vesting period - <i>Tranche 3</i>	N/a	2 years	2 years	-	-

	Grant 11	Grant 12	Grant 13	Grant 14	Grant 15
Grant date	10-Nov-15	31-Jul-15	31-Aug-15	26-Oct-15	26-Oct-15
Fair value at grant date - <i>Tranche 1</i>	\$1.09	\$1.85	\$1.82	\$1.72	\$1.72
Fair value at grant date - <i>Tranche 2</i>	-	\$1.85	\$1.82	\$1.72	\$1.72
Fair value at grant date - <i>Tranche 3</i>	-	-	\$1.82	-	-
Share price at grant date	\$1.78	\$1.85	\$1.82	\$1.72	\$1.72
Expected volatility (weighted average)	45.0%	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	1.75%	2.29%	2.10%	2.20%	2.20%
Vesting period - <i>Tranche 1</i>	3 years	Nil	6 months	Nil	Nil
Vesting period - <i>Tranche 2</i>	-	30 months	18 months	2 years	2 years
Vesting period - <i>Tranche 3</i>	-	-	30 months	-	-

	Grant 16	Grant 17	Grant 18	Grant 19	Grant 20
Grant date	26-Oct-15	18-Dec-15	12-Feb-16	12-Feb-16	12-Feb-16
Fair value at grant date - <i>Tranche 1</i>	\$1.72	\$1.94	\$1.64	\$1.64	\$0.22
Fair value at grant date - <i>Tranche 2</i>	\$1.72	\$1.94	\$1.64	\$1.64	\$0.34
Fair value at grant date - <i>Tranche 3</i>	-	\$1.94	\$1.64	\$1.64	-
Share price at grant date	\$1.72	\$1.94	\$1.64	\$1.64	\$1.64
Expected volatility (weighted average)	38.3%	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	2.20%	2.00%	2.01%	2.03%	1.89%
Vesting period - <i>Tranche 1</i>	Nil	2 months	10 months	11 months	11 months
Vesting period - <i>Tranche 2</i>	2 years	1 year	22 months	23 months	23 months
Vesting period - <i>Tranche 3</i>	-	2 years	34 months	35 months	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Performance rights (continued)

(iii) Measurement of fair values (continued)

	Grant 21	Grant 22	Grant 23	Grant 24	Grant 25
Grant date	15-Apr-16	22-Apr-16	21-Jun-16	28-Jan-16	15-Jan-16
Fair value at grant date - <i>Tranche 1</i>	\$1.33	\$1.15	\$0.17	\$1.75	\$1.71
Fair value at grant date - <i>Tranche 2</i>	-	-	-	\$1.75	\$1.71
Fair value at grant date - <i>Tranche 3</i>	-	-	-	\$1.75	\$1.71
Share price at grant date	\$1.33	\$1.15	\$0.22	\$1.76	\$1.72
Expected volatility (weighted average)	38.3%	38.3%	45.0%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	1.98%	2.05%	1.61%	2.06%	2.15%
Vesting period - <i>Tranche 1</i>	8 months	8 months	38 months	3 days	6 months
Vesting period - <i>Tranche 2</i>	-	-	-	13 months	18 months
Vesting period - <i>Tranche 3</i>	-	-	-	25 months	30 months

	Grant 26	Grant 27	Grant 28	Grant 29
Grant date	15-Apr-16	4-Jan-16	15-Apr-16	15-Apr-16
Fair value at grant date - <i>Tranche 1</i>	\$1.33	\$1.90	\$1.33	\$1.33
Fair value at grant date - <i>Tranche 2</i>	\$1.33	\$1.90	\$1.33	\$1.33
Fair value at grant date - <i>Tranche 3</i>	\$1.33	\$1.90	\$1.33	-
Share price at grant date	\$1.33	\$1.90	\$1.33	\$1.33
Expected volatility (weighted average)	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	2.19%	2.33%	2.19%	2.05%
Vesting period - <i>Tranche 1</i>	9 months	1 year	9 months	Nil
Vesting period - <i>Tranche 2</i>	21 months	2 years	21 months	20 months
Vesting period - <i>Tranche 3</i>	33 months	3 years	33 months	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Share-based payment awards pursuant to acquisition of subsidiaries

As part of the acquisition of Magicseaweed, Rollingyouth and Garage Entertainment, shares were granted to key employees of the businesses. These shares will vest and be issued on completion of the required service periods.

(i) Details of share-based payment awards pursuant to acquisition of subsidiaries

The following are the key service, performance and vesting conditions attached to the awards.

	Magicseaweed	Rollingyouth	Rollingyouth	Garage Entertainment
Grant date	22-May-15	22-May-15	22-May-15	12-Nov-15
Vesting date - <i>Tranche 1</i>	22-May-16	22-May-16	22-May-16	12-Nov-16
Vesting percentage - <i>Tranche 1</i>	33.33%	66.66%	33.34%	41.38%
Vesting date - <i>Tranche 2</i>	22-May-17	22-May-17	22-May-17	12-Nov-17
Vesting percentage - <i>Tranche 2</i>	33.33%	33.34%	33.33%	58.62%
Vesting date - <i>Tranche 3</i>	22-May-18	-	22-May-18	N/a
Vesting percentage - <i>Tranche 3</i>	33.34%	-	33.33%	N/a
Service condition *	Yes	Yes	Yes	Yes
Performance condition +	No	No	No	No
Expense recognised in period based on grant date fair value	\$2,244,482	\$2,437,836	\$595,389	\$1,503,041
Equity instrument rights	2,298,846	1,829,520	609,840	1,691,949

The vesting of these shares is contingent on the employee completing the relevant service period only. There are no performance hurdles related to these shares. Accordingly, the grant date fair value is based on SGL's share price on grant date.

(ii) Share-based payment awards pursuant to acquisition of subsidiaries on issue

The number of shares on issue during the year is set out in the table below.

<i>In number of shares</i>	Magicseaweed	Rollingyouth	Rollingyouth	Garage Entertainment
Outstanding at 1 July 2015	2,298,846	1,829,520	609,840	-
Granted during the period	-	-	-	1,691,949
Forfeited during the period	-	-	-	-
Exercised during the period	(766,281)	(1,219,680)	(203,280)	-
Expired during the period	-	-	-	-
Outstanding at 30 June 2016	1,532,565	609,840	406,560	1,691,949

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. Share-based payment arrangements (continued)

Equity-settled share-based payment awards pursuant to acquisition of subsidiaries (continued)

(iii) Measurement of fair values

The fair value of share-based payment awards pursuant to acquisition of subsidiaries has been measured using a Black Scholes valuation model. The inputs used in the measurement of the fair values at grant date are set out in the following table.

	Magicseaweed	Rollingyouth	Rollingyouth	Garage Entertainment
Grant date	22-May-15	22-May-15	22-May-15	12-Nov-15
Fair value at grant date - <i>Tranche 1</i>	\$1.69	\$1.69	\$1.69	\$1.99
Fair value at grant date - <i>Tranche 2</i>	\$1.69	\$1.69	\$1.69	\$1.99
Fair value at grant date - <i>Tranche 3</i>	\$1.69	-	\$1.69	-
Share price at grant date	\$1.70	\$1.70	\$1.70	\$1.99
Expected volatility (weighted average)	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	2.50%	2.50%	2.50%	2.39%
Vesting period - <i>Tranche 1</i>	1 year	1 year	1 year	1 year
Vesting period - <i>Tranche 2</i>	2 years	2 years	2 years	2 years
Vesting period - <i>Tranche 3</i>	3 years	-	3 years	-

Significant accounting policies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

11. Other employee benefits

<i>In thousands of dollars</i>	2016	2015
Liability for annual leave	1,166	624
Liability for long service leave	488	180
Liability for bonuses ⁽¹⁾	1,106	603
Other benefits	19	298
Total employee benefits	2,779	1,705
Current	2,486	1,525
Non-current	293	180
Total employee benefits	2,779	1,705

⁽¹⁾ This amount includes a liability recognised in respect of services provided by employees following the acquisition of Magicseaweed. The amounts will be paid to employees following completion of a service period as outlined in the share purchase agreement.

Significant accounting policies

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.

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.

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.

Defined contribution plans

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

12. Employee benefit expenses

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015
Wages and salaries		33,513	15,933
Compulsory superannuation contributions		1,376	524
Termination benefits		541	228
Increase in liability for annual leave ⁽¹⁾		1,132	222
Increase/(decrease) in liability for long service leave ⁽¹⁾		14	(11)
Equity-settled share based payments	10	10,444	1,390
Total employee benefits expense		47,020	18,286

⁽¹⁾ The increase in the liability for annual leave and long service leave during the financial year does not include liability balances acquired as part of business combinations. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

13. Income taxes

Amounts recognised in profit or loss

<i>In thousands of dollars</i>	2016	2015
Current tax expense	825	-
Deferred tax benefit	(250)	(3,583)
Prior period tax benefit	(1,070)	-
Tax benefit on continuing operations	(495)	(3,583)

The Group believes that its accruals for tax liabilities are adequate for all open tax periods based on its assessment of many factors, including interpretations of tax law and prior experience.

Amounts recognised directly in equity

<i>In thousands of dollars</i>	2016			2015		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Capital raising costs	1,537	(1,604)	(67)	5,186	(787)	4,399
Total recognised directly in equity	1,537	(1,604)	(67)	5,186	(787)	4,399

Reconciliation of effective tax rate

	2016		2015 (*restated)	
	%	\$'000	%	\$'000
Loss before tax from continuing operations		(155,210)		(21,201)
Tax using the Company's domestic tax rate	30%	(46,563)	30%	(6,360)
Effect of tax rates in foreign jurisdictions	10%	2,376	10%	332
Non-deductible impairment expense	30%	19,133	30%	-
Non-deductible capital raising costs	30%	-	30%	656
Non-deductible acquisition costs	30%	180	30%	740
Non-deductible share-based payments expense	30%	3,074	30%	-
Other non-deductible expenses	30%	2,411	30%	586
Tax base uplift as a result of tax grouping	30%	-	30%	247
Write-down of previously recognised deferred tax assets in relation to tax losses	30%	1,755	30%	-
Write-down of other previously recognised deferred tax assets	30%	3,395	30%	-
Current period losses for which no deferred tax asset was recognised	30%	14,814	30%	216
Change in estimates related to prior periods	30%	(1,070)	30%	-
Effective tax rate	0%	(495)	17%	(3,583)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

13. Income taxes (continued)

Movement in deferred tax balances

<i>In thousands of dollars</i>	Net balance at 1 July 2015 (*restated)	Recognised in profit or loss	Recognised directly in equity	Acquired in business combinations	Net balance at 30 June 2016
Property, plant and equipment	22	27	-	-	49
Intangibles assets	(5,924)	6,115	-	-	191
Inventories	-	793	-	22	815
Other assets	-	(11)	-	24	13
Employee benefits	437	(204)	-	181	414
Provisions	510	(132)	-	107	485
Deferred revenue	-	(2,733)	-	-	(2,733)
Other liabilities	-	575	-	(44)	531
Tax losses	4,034	(3,556)	-	644	1,122
Capital raising costs	823	(624)	1,604	-	1,803
Net tax assets at 30 June 2016	(98)	250	1,604	934	2,690

Deferred tax assets	5,592
Deferred tax liabilities	(2,902)
Net tax assets at 30 June 2016	2,690

<i>In thousands of dollars</i>	Net balance at 13 October 2014	Recognised in profit or loss	Recognised directly in equity	Acquired in business combinations	Net balance at 30 June 2015 (*restated)
Property, plant and equipment	-	136	-	(114)	22
Intangibles assets	-	98	-	(6,022)	(5,924)
Inventories	-	-	-	-	-
Other assets	-	23	-	(23)	-
Employee benefits	-	105	-	332	437
Provisions	-	238	-	272	510
Deferred revenue	-	-	-	-	-
Other liabilities	-	-	-	-	-
Tax losses	-	3,174	-	860	4,034
Capital raising costs	-	(191)	787	227	823
Net tax assets at 30 June 2015	-	3,583	787	(4,468)	(98)

Deferred tax assets	5,809
Deferred tax liabilities	(5,907)
Net tax assets at 30 June 2015	(98)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

13. Income taxes (continued)

Unrecognised deferred tax assets

<i>In thousands of dollars</i>	2016	2015
Deductible temporary difference (will never expire)	3,395	-
Tax losses (will never expire)	16,569	-
Total unrecognised deferred tax assets	19,964	-

Significant accounting policies

Current tax

The income tax expense or benefit for the year is the tax payable on the current year'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.

Current 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.

Deferred tax

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

13. Income taxes (continued)

Significant accounting policies (continued)

Tax consolidation

The Group formed a tax-consolidated group on 16 December 2014. 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 probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Tax funding and tax sharing agreements

The head entity, in conjunction with the other members of the tax consolidated group, has agreed to enter into a tax funding agreement which will set out the funding obligations of the members of the tax consolidated group in respect of amounts of income tax. The Group has entered a legal engagement for the preparation of the tax funding agreement which is expected to be finalised in the short term.

The head entity, in conjunction with the other members of the tax consolidated group, has agreed to enter into a tax sharing agreement which will provide for the determination of allocation of income tax liabilities between the members of the tax consolidated group should the head entity default on its tax payment obligations. The Group has entered a legal engagement for the preparation of the tax sharing agreement which is expected to be finalised in the short term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

14. Cash and cash equivalents

<i>In thousands of dollars</i>	2016	2015 (*restated)
Bank balances	21,366	39,512
Cash on hand	7	-
Call deposits	-	219
Total cash and cash equivalents	21,373	39,731

Amounts from payment providers of \$1,106,000 have been reclassified from cash and cash equivalents to trade and other receivables at 30 June 2015 to conform to current year classification. These amounts were received within a few days after the end of the comparative financial period.

Significant accounting policies

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 consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

15. Trade and other receivables

<i>In thousands of dollars</i>	2016	2015 (*restated)
Trade receivables	8,210	2,739
Provision for impairment of trade receivables	(53)	-
Other receivables	834	347
Total trade and other receivables	8,991	3,086
Current	8,991	3,086
Non-current	-	-
Total trade and other receivables	8,991	3,086

* The above comparative information has been restated to reflect a change in classification of asset balances, further detail of which is disclosed in note 14.

Further detail about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is disclosed in note 22.

Significant accounting policies

Trade and other 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 30-60 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.

Impairment of trade and other receivables

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 year, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

16. Inventories

<i>In thousands of dollars</i>	2016	2015
Finished goods	36,664	43,290
Raw materials	315	-
Total inventories	36,979	43,290

Significant accounting policies

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.

Raw materials

Raw materials are stated at the lower of cost and net realisable value. Costs are assigned to individual items on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated selling costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

17. Property, plant and equipment

Reconciliation of carrying amounts

Cost

<i>In thousands of dollars</i>	<i>Note</i>	<i>Plant & equipment</i>	<i>Leased plant & equipment</i>	<i>Total</i>
Balance at 13 October 2014		-	-	-
Acquisitions through business combinations		3,098	598	3,696
Additions		195	431	626
Disposals		(209)	(320)	(529)
Effect of movements in exchange rates		39	3	42
Balance at 30 June 2015		3,123	712	3,835
Balance at 1 July 2015		3,123	712	3,835
Acquisitions through business combinations	5	911	137	1,048
Additions		2,068	788	2,856
Disposals		(271)	(4)	(275)
Impairments		(685)	(128)	(813)
Effect of movements in exchange rates		(99)	(6)	(105)
Balance at 30 June 2016		5,047	1,499	6,546

Accumulated depreciation

<i>In thousands of dollars</i>	<i>Plant & equipment</i>	<i>Leased plant & equipment</i>	<i>Total</i>
Balance at 13 October 2014	-	-	-
Depreciation - continuing operations	432	143	575
Depreciation - discontinued operation	50	59	109
Disposals	(94)	(59)	(153)
Balance at 30 June 2015	388	143	531
Balance at 1 July 2015	388	143	531
Depreciation - continuing operations	1,347	480	1,827
Depreciation - discontinued operation	8	-	8
Disposals	(163)	(1)	(164)
Effect of movements in exchange rates	(54)	(7)	(61)
Balance at 30 June 2016	1,526	615	2,141

Carrying amounts

<i>In thousands of dollars</i>	<i>Plant & equipment</i>	<i>Leased plant & equipment</i>	<i>Total</i>
Balance at 30 June 2015	2,735	569	3,304
Balance at 30 June 2016	3,521	884	4,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

17. Property, plant and equipment (continued)

Significant accounting policies

Carrying value

All property, plant and equipment is stated at historical cost less depreciation and impairment. 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

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 – 3 to 5 years
- Plant and equipment – 3 to 5 years
- Furniture, fittings and equipment – 3 to 5 years

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

Impairment

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 disposal

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

18. Intangible assets and goodwill

Reconciliation of carrying amount

Cost

<i>In thousands of dollars</i>	<i>Note</i>	Goodwill	Brands & trademarks	Website & software	Total
Balance at 13 October 2014		-	-	-	-
Acquisitions through business combinations		55,655	27,157	24,619	107,431
Additions		-	9	2,684	2,693
Disposals		-	-	(3,737)	(3,737)
Impairments		(19,702)	-	-	(19,702)
Effect of movements in exchange rates		48	399	329	776
Balance at 30 June 2015 (*restated)		36,001	27,565	23,895	87,461
Balance at 1 July 2015 (*restated)		36,001	27,565	23,895	87,461
Acquisitions through business combinations	5	25,068	688	704	26,460
Additions		-	314	7,722	8,036
Disposals		-	-	(5,319)	(5,319)
Impairments		(54,628)	(19,012)	(14,546)	(88,186)
Effect of movements in exchange rates		168	170	(712)	(374)
Balance at 30 June 2016		6,609	9,725	11,744	28,078

Accumulated amortisation

<i>In thousands of dollars</i>	Goodwill	Brands & trademarks	Website & software	Total
Balance at 13 October 2014	-	-	-	-
Amortisation - continuing operations	-	1,437	3,965	5,402
Amortisation - discontinued operation	-	-	826	826
Disposals	-	-	(2,403)	(2,403)
Balance at 30 June 2015 (*restated)	-	1,437	2,388	3,825
Balance at 1 July 2015 (*restated)	-	1,437	2,388	3,825
Amortisation - continuing operations	-	2,924	11,455	14,379
Disposals	-	-	(5,255)	(5,255)
Effect of movements in exchange rates	-	98	(60)	38
Balance at 30 June 2016	-	4,459	8,528	12,987

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

18. Intangible assets and goodwill (continued)

Reconciliation of carrying amount (continued)

<i>In thousands of dollars</i>	Goodwill	Brands & trademarks	Website & software	Total
Balance at 30 June 2015 (*restated)	36,001	26,128	21,507	83,636
Balance at 30 June 2016	6,609	5,266	3,216	15,091

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

Impairment testing

As part of the on-going strategic review announced on 15 July 2016, management undertook impairment testing at 30 June 2016 for all cash generating units ("CGUs"). The testing for the Surf Hardware CGU has been conducted using the higher of a value in use model and a fair value less costs of disposal model. All other CGUs were tested using a value in use model.

The Group's operations are allocated to CGUs after taking into consideration the nature of the business, how operations are monitored, and where independent cash flows are identifiable. Seven independent CGUs have been identified across the Group against which impairment testing has been undertaken:

- Asia-Pacific Retail, Europe Retail (Surfdome only), North America Retail and Surf Hardware are individually reportable segments and are considered separate CGUs. Further information about these CGUs is disclosed in note 4;
- Magicseaweed provides forecasting and live reporting of global beach conditions;
- Rollingyouth is an online surf publisher, content provider and online retailer; and
- Garage Entertainment produces and digitally distributes premium action and extreme sports long form files and television content.

The carrying amount of goodwill allocated to the Group's CGUs (after impairment) and the impairment expense recorded in FY16 is set out in the following table.

<i>In thousands of dollars</i>	2016 Impairment expense	2016 Goodwill	2015 (*restated) Goodwill
Asia-Pacific Retail	22,474	-	9,353
Europe Retail	31,655	-	19,612
North America Retail	6,658	-	2,049
Magicseaweed	6,668	-	3,925
Rollingyouth	2,154	-	1,062
Garage Entertainment ⁽¹⁾	12,912	-	-
Surf Hardware ⁽¹⁾	6,478	6,609	-
Total	88,999	6,609	36,001

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

⁽¹⁾ Garage Entertainment and Surf Hardware were acquired in FY16 and were therefore not classified as CGUs in FY15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

18. Intangible assets and goodwill (continued)

Impairment testing (continued)

Value in use

The recoverable amount of the following CGUs was determined based on a value in use calculation:

- Asia-Pacific Retail;
- Europe Retail;
- North America Retail;
- Magicseaweed;
- Rollingyouth; and
- Garage Entertainment.

The Group experienced declines in sales and profitability across its retail CGUs (Asia-Pacific Retail, Europe Retail and North America Retail) which are not expected to recover in the foreseeable future and as a result an impairment expense was recognised for these CGUs in the financial year ended 30 June 2016.

The Group's original strategy in acquiring its media CGUs (Magicseaweed, Rollingyouth and Garage Entertainment) was to leverage their content and customer base to significantly enhance the Group's retail customer engagement levels. The integration of these opportunities has been slow and there has been lower than expected benefit gained from this integration. As part of the on-going strategic review announced in July 2016, management have concluded that the expected integration benefits will not likely eventuate in the foreseeable future and as a result an impairment expense was recognised for these CGUs in the financial year ended 30 June 2016.

In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate.

Forecast revenue and EBITDA is calculated for FY17 to FY21 adopting revenue growth rates consistent with historical trends and forecasted market analysis, management strategic plans and an EBITDA growth consistent with expected forecast performance and comparable companies. The FY17 assumptions represent the Board approved budget.

The key assumptions used for each CGU based on the value in use calculation are set out below.

Forecast revenue

	Asia-Pacific Retail	Europe Retail	North America Retail	Magic- seaweed	Rolling- youth	Garage Entertain- ment
Revenue growth rate (5 year average)	6.4%	11.4%	10.1%	23.4%	4.4%	21.2%

Forecast EBITDA

EBITDA is forecast to increase based on:

- Improvements in gross margin of up to 6% over the forecast period for the retail CGUs and will remain constant for the other CGUs over the forecast period;
- Variable costs will increase in line with revenue growth over the forecast period; and
- Fixed costs will increase by approximately 4% to 5% over the forecast period.

Group overheads

Group overheads include retail eCommerce overhead costs and corporate overhead costs that have been allocated to each CGU.

These are both forecast to increase by an average of revenue growth and CPI over the forecast period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

18. Intangible assets and goodwill (continued)

Impairment testing (continued)

Value in use (continued)

Capital expenditure

The cash flows for capital expenditure are based on past experience and the amounts included in the terminal year calculation are for maintenance capital. The resulting expenditure has been compared against the annual depreciation charge to ensure that it is reasonable.

Working capital

The cash flows for working capital investment are forecast to increase in order to support the forecast growth in revenue for the retail CGUs.

Discount rate

Post-tax discount rates as set out in the table below reflect the Group's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital ("WACC") for the Group adjusted for country and business risks specific to that CGU, including benchmarking against relevant peer group companies. The post-tax discount rate is applied to post-tax cash flows that include an allowance for tax based on the respective jurisdiction's tax rate. This method is used to approximate the requirement of the accounting standards to apply a pre-tax discount rate to pre-tax cash flows.

	Asia-Pacific Retail	Europe Retail	North America Retail	Magic- seaweed	Rolling- youth	Garage Entertain- ment
Post-tax weighted average cost of capital	12.7%	11.1%	13.1%	11.1%	12.7%	12.6%

During the comparative period, a post-tax weighted average cost of capital of 9.4% to 11.7%, reflecting the risk estimates from a market perspective for the various CGUs tested, had been applied.

Terminal value

The terminal value is calculated using the perpetuity growth model applying a growth rate of between 1% and 2%.

Sensitivities

Other than as disclosed below, the Group believes that for all other CGUs, any reasonable possible change in the key assumptions would not cause the carrying values to exceed their recoverable amount.

The changes in the impairment amounts and corresponding carrying values that would occur as a result of a reasonably possible change to key assumptions are set out in the following table.

Impairment value increase/(decrease)	Asia-Pacific Retail	Europe Retail
Retail gross margin - increase by 100 bps	(6,944)	(8,893)
Retail gross margin - decrease by 100 bps	6,945	3,717
Post-tax weighted average cost of capital - increase by 100 bps	739	545
Post-tax weighted average cost of capital - decrease by 100 bps	(886)	(678)
Allocation of Group overheads - increase by 100 bps	1,338	1,849
Allocation of Group overheads - decrease by 100 bps	(1,224)	(1,696)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

18. Intangible assets and goodwill (continued)

Impairment testing (continued)

Fair value less costs of disposal

As part of the on-going strategic review announced on 15 July 2016, management concluded that while Surf Hardware is a good business, it does not represent a strategic fit with the Group and management are considering opportunities for its divestment.

As such, the recoverable amount of the Surf Hardware CGU was determined based on a fair value less costs of disposal calculation.

The key assumptions were based on a third party indicative pricing range valuation, less estimated cost of legal and other professional fees. An acquisition multiple of 5 to 6 times normalised FY16 EBITDA was applied.

The resulting impairment amount for Surf Hardware was \$6,478,000.

A 10% increase in the third party indicative pricing range would decrease the impairment by \$1,750,000. A 10% decrease in the third party indicative pricing range would increase the impairment by \$1,750,000.

Significant accounting policies

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.

Brands and trademarks

Trademarks, brands 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.

Information technology (IT) development and software

Costs incurred in acquiring software and licences that will contribute to future year 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.

From 1 July 2016, the Group has changed its capitalisation policy and will no longer capitalise payroll and related costs of employees' time spent on the project. These costs will be expensed to the consolidated statement of profit and loss as incurred.

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.

Impairment

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

19. Capital and reserves

Share capital

	Shares	\$'000s
In issue at 13 October 2014	2	-
Issued for cash as part of IPO	83,192,359	83,192
Issued for consideration in business combination	127,031,327	127,032
Issued for no consideration in business combination	3,400,000	-
Issued for cash	28,333,499	42,500
Issued under share-based payment arrangements	518,781	-
Capital raising costs	-	(4,399)
In issue at 30 June 2015	242,475,968	248,325
In issue at 1 July 2015	242,475,968	248,325
Issued for cash (i)	25,000,000	50,000
Issued for consideration in business combination (ii)	5,600,934	10,698
Issued under share-based payment arrangements (iii)	3,500,502	-
Capital raising costs (iv)	-	67
In issue at 30 June 2016	276,577,404	309,090

All ordinary shares rank equally with regard to the Company's residual assets.

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of these shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company.

(i) Additional share purchase plan

On 1 December 2015, SGL issued 25,000,000 shares under a share purchase plan to existing shareholders raising \$50,000,000 at an issue price of \$2.00 per share.

(ii) Issued to acquire Garage Entertainment

On 11 November 2015, SGL issued 5,600,934 shares to the existing shareholders of Garage Entertainment Aust Pty Ltd and TMG Media Pty Ltd (collectively "Garage Entertainment") in part-consideration for acquiring 100% of the share capital in those entities.

(iii) Vested share-based payment arrangements

These amounts relate to share-based payments to employees that have vested into one fully paid share.

(iv) Capital raising costs

SGL incurred \$1,375,000 transaction costs in relation to the current year capital raising, and received a \$413,000 income tax benefit in relation to these costs.

Also during the financial year, SGL incurred \$162,000 additional transaction costs in relation to the May 2015 capital raising and booked a \$1,192,000 additional income tax benefit in relation to all costs incurred in the prior year's capital raising.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

19. Capital and reserves (continued)

Nature and purpose of reserves

(i) Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

(ii) Share-based payments reserve

The share-based payments reserve is used to record the value of equity-settled share-based payments provided to employees as part of their remuneration.

(iii) Other equity reserve

The other equity reserve represents the difference between the consideration paid by SGL, and the net identifiable assets of SHPL on 16 December 2014, being the date SGL acquired SHPL. Further detail is disclosed in note 5.

Dividends

No dividends were declared or paid by the Company for the year (2015: nil).

Significant accounting policies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

20. Trade and other payables

<i>In thousands of dollars</i>	2016	2015 (*restated)
Trade payables	26,807	26,791
Trade payables due to related parties	-	148
Other payables	4,983	7,815
Accrued expenses	5,214	1,527
Total trade and other payables	37,004	36,281
Current	37,004	36,281
Non-current	-	-
Total trade and other payables	37,004	36,281

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

Further detail about the Group's exposure to currency and liquidity risk are disclosed in note 22.

Significant accounting policies

Trade and other payables 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

21. Provisions

<i>In thousands of dollars</i>	<i>Note</i>	<i>Customer returns</i>	<i>Make good</i>	<i>Onerous contracts</i>	<i>Restructure</i>	<i>Total</i>
Balance at 1 July 2015		1,130	426	720	-	2,276
Assumed in a business combination	5	-	-	343	-	343
Provisions made during the period		1,595	256	1,263	429	3,543
Provisions used during the period		(1,115)	(115)	(720)	-	(1,950)
Provisions reversed during the period		-	-	(27)	-	(27)
Effect of movements in exchange rates		(15)	2	58	-	45
Balance at 30 June 2016		1,595	569	1,637	429	4,230
Current		1,595	569	757	429	3,350
Non-current		-	-	880	-	880
Total provisions		1,595	569	1,637	429	4,230

Significant accounting policies

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.

Customer returns

A customer returns provision is recognised for any goods expected to be returned based on an analysis of historical returns data.

Make good

A make good provision is recognised for the costs of restoration or removal in relation to plant and equipment and site leases where there is a legal or constructive obligation. The provision is initially recorded when a reliable estimate can be determined and discounted to present value. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

Onerous contracts

An onerous contracts provision is recognised for the portion of office and warehouse leases that will not be utilised.

Restructuring

A restructuring provision is recognised for employee redundancy payments that will be paid in the following financial year, to the extent that the employee has been given notice of their termination before the end of the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

22. Financial instruments – fair values and risk management

Accounting classifications and fair values

The Group has financial assets of cash and cash equivalents and trade and other receivables. These financial assets are not measured at fair value, and the carrying amount is a reasonable approximation of fair value at 30 June 2016.

The Group has financial liabilities of trade and other payables. These financial liabilities are not measured at fair value, and the carrying amount is a reasonable approximation of fair value at 30 June 2016.

Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk - refer (ii)
- liquidity risk - refer (iii)
- market risk – refer (iv)

(i) Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit, Risk and Compliance Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit, Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

22. Financial instruments – fair values and risk management (continued)

Financial risk management (continued)

(ii) Credit risk (continued)

Trade and other receivables

In the view of the Board of Directors, the Group's exposure to credit risk is not significant due to immediate cash settlement at time of sale for all retail sales and for those sales made on deferred payment terms, the number of historically uncollectible receivables is minimal.

At 30 June, the maximum exposure to credit risk for trade and other receivables by geographic region is set out in the following table.

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (*restated)
Asia Pacific		2,786	723
Europe		2,825	2,071
United States of America		3,380	292
Total trade and other receivables	15	8,991	3,086

* The above comparative information has been restated to reflect a change in classification of asset balances, further detail of which is disclosed in note 14.

Impairment

At 30 June, the aging of the trade and other receivables that were not impaired are set out in the following table.

<i>In thousands of dollars</i>	<i>Note</i>	2016	2015 (*restated)
Neither past due nor impaired		5,940	3,086
30 to 60 days past due but not impaired		1,227	-
60 to 90 days past due but not impaired		1,085	-
Over 90 days past due but not impaired		739	-
Total trade and other receivables	15	8,991	3,086

* The above comparative information has been restated to reflect a change in classification of asset balances, further detail of which is disclosed in note 14.

The Group holds a provision for impaired trade receivables of \$53,000 at 30 June 2016.

Trade receivables totalling \$121,000 were written off during the year.

Cash and cash equivalents

The Group held cash and cash equivalents of \$21,373,000 at 30 June 2016. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency Standard & Poor's ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

22. Financial instruments – fair values and risk management (continued)

Financial risk management (continued)

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain cash at a level appropriate to fund operations. At 30 June 2016, the expected cash flows from trade and other receivables maturing within two months were \$5,940,000.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

In thousands of dollars	Carrying amount at 30 June 2016	Contractual cash flows				
		2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	37,004	22,241	14,763	-	-	-
Total non-derivative financial liabilities	37,004	22,241	14,763	-	-	-

In thousands of dollars	Carrying amount at 30 June 2015	Contractual cash flows				
		2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	36,281	26,789	9,492	-	-	-
Total non-derivative financial liabilities	36,281	26,789	9,492	-	-	-

(iv) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group's exposure to foreign currency risk is limited due to the natural hedge afforded to the Group by purchasing and selling in local currency in all countries in which it operates.

The Group holds the following foreign currency contracts:

- GBP put and call option contracts for 1m GBP maturing on the 31st May 2017
- USD forward contract for \$331,000 maturing on the 9th September 2016

The fair value of the options and forward exchange contracts is not material at balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

22. Financial instruments – fair values and risk management (continued)

Financial risk management (continued)

(iv) Market risk (continued)

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is set out in the following table.

In local currency (thousands)	2016		
	EUR	GBP	USD
Trade and other receivables ⁽¹⁾	996	751	2,530
Trade and other payables ⁽¹⁾	(565)	(9,863)	(3,944)
Net statement of financial position exposure	431	(9,112)	(1,414)

In local currency (thousands)	2015 *restated		
	EUR	GBP	USD
Trade and other receivables ⁽¹⁾	23	1,036	235
Trade and other payables ⁽¹⁾	(1,657)	(8,593)	(5,154)
Net statement of financial position exposure	(1,634)	(7,556)	(4,919)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

⁽¹⁾ These amounts include all currency risk, some of which would be sheltered by the foreign currency translation reserve.

The following significant exchange rates have been applied in preparing the consolidated statement of financial position and consolidated statement of profit or loss.

In AUD	2016		2015	
	Average rate	Year-end spot rate	Average rate	Year-end spot rate
EUR	0.66	0.67	0.73	0.71
GBP	0.50	0.55	0.55	0.51
USD	0.73	0.74	0.87	0.80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

22. Financial instruments – fair values and risk management (continued)

Financial risk management (continued)

(iv) Market risk (continued)

Sensitivity analysis

A reasonably possible strengthening or weakening of the AUD against the below currencies at 30 June 2016 would have affected the measurement of financial assets and liabilities denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

<i>Effect in thousands of dollars</i>	Profit or (loss)		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (5% movement)	(1)	1	(45)	52
GBP (5% movement)	(12)	12	1,364	(1,634)
USD (5% movement)	24	(47)	120	(137)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

23. List of subsidiaries

A list of the material subsidiaries of the Group is set out in the table below.

Entity name	Country of incorporation	Ownership interest 2016	Ownership interest 2015
SurfStitch Holdings Pty Limited	Australia	100%	100%
SurfStitch Pty Limited	Australia	100%	100%
SurfStitch (Europe) Limited	Australia	100%	100%
SurfStitch USA, Inc.	USA	100%	100%
Surfdome Shop Limited	UK	100%	100%
Magicseaweed Limited	UK	100%	100%
Metcentral Limited	UK	100%	100%
Red Tree Digital Limited	UK	100%	100%
Rollingyouth Pty Limited	Australia	100%	100%
Rollingyouth USA, Inc.	USA	100%	100%
Garage Entertainment Aust Pty Ltd	Australia	100%	Nil
TMG Media Pty Ltd	Australia	100%	Nil
SHI Holdings Pty Limited	Australia	100%	Nil
Fin Control Systems Pty Limited	Australia	100%	Nil
Surfing Hardware International Holdings Pty Limited	Australia	100%	Nil
Surf Hardware International Asia Pty Limited	Australia	100%	Nil
OZ4U Holdings Pty Limited	Australia	100%	Nil
Surf Hardware International Pty Limited	Australia	100%	Nil
Sunbum Technologies Pty Ltd	Australia	100%	Nil
Surf Hardware International Brasil Com. De Mat. Esportivos LTDA	Brazil	100%	Nil
Surfing Hardware International Inc.	USA	100%	Nil
Surf Hardware International USA Inc.	USA	100%	Nil
Surf Hardware International Hawaii Inc.	USA	100%	Nil
Surf Hardware International Europe SARL	France	100%	Nil
Surf Hardware International Japan KK	Japan	100%	Nil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

24. Operating leases

The Group leases a number of warehouse and office facilities under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Lease payments are renegotiated every year to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain operating leases, the Group is restricted from entering into any sublease arrangements.

Future minimum lease payments

At 30 June, the future minimum lease payments under non-cancellable leases were payable as set out in the following table.

<i>In thousands of dollars</i>	2016	2015
Less than one year	4,651	2,690
Between one and five years	10,102	2,275
More than five years	323	-
Total future minimum lease payments	15,076	4,965

Amounts recognised in profit or loss

<i>In thousands of dollars</i>	2016	2015
Lease expense	5,185	1,630
Onerous lease expense	1,265	306
Total amounts recognised in profit or loss	6,450	1,936

Significant accounting policies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

25. Commitments

As disclosed in the Director's Report, the Group entered into a 10 year contract for Coastalwatch to host a link to SurfStitch's website for an \$800,000 annual payment, payable each year for the next 9 years. The Group has no other material capital commitments as at 30 June 2016 (2015: nil).

26. Contingencies

Entities within the Group are defendants in legal proceedings arising out of a series of agreements entered into with Coastalwatch Pty Ltd ("Coastalwatch"), Three Crowns Investments Pty Ltd ("TCI") and Coastalcoms Pty Ltd ("Coastalcoms") (collectively the "3CM Entities") during FY16.

Claim pursuant to an App Branding Licence (District Court of Queensland)

On 3 August 2016, TCI commenced a proceeding against SurfStitch Group Limited in relation to fees allegedly payable pursuant to an App Branding Licence entered into between the parties in 1H FY16 (and varied in 2H FY16) (the "App Branding Licence"). TCI seeks an award of \$275,000 (being the first of two instalments allegedly owing pursuant to the agreement), plus costs and interest.

Claim pursuant to a Software Licensing Agreement (Supreme Court of Queensland)

On 9 August 2016, Coastalcoms commenced a proceeding against SurfStitch Holdings Pty Ltd seeking damages as a result of the termination of a Software Licensing Agreement entered into between the parties in 2H FY16. Coastalcoms claims damages for breach of contract in the sum of US\$8.73m, applicable GST (if any), plus costs and interest.

The Group will be defending the above proceedings. The amount of liability, if any, that may arise from the proceedings cannot be measured reliably at this time and as such no provision has been recorded.

Class Action Notice

A firm of solicitors issued a media release on 11 June 2016 indicating it was engaged in a preliminary investigation of the Group, and invited shareholders to register their interest in participating in a possible class action. There is significant uncertainty as to whether a future liability will arise with respect of this matter. The amount of liability, if any, cannot be measured reliably at this time.

The Group has no other material contingent liabilities as at 30 June 2016 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

27. Related parties

Parent and ultimate controlling party

SurfStitch Group Limited was the parent and ultimate controlling party of the Group throughout the year ended 30 June 2016.

Transactions with key management personnel

(i) Key management personnel compensation

The key management personnel compensation is set out in the table below.

<i>In dollars</i>	2016	2015
Short-term employee benefits	2,318,979	2,697,658
Post-employment benefits	55,277	35,918
Other long term benefits	-	-
Termination benefits	28,846	-
Share-based payments	937,364	186,063
Total key management personnel compensation	3,340,466	2,919,639

Compensation of the Group's key management personnel includes salaries and non-cash benefits. Executive officers also participate in the Groups employee incentive plan. Further details of key management personnel compensation are included in the Remuneration Report within the Directors' Report.

(ii) Key management personnel and director transactions

From time to time Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by the other Group employees or customers.

Transactions with other related parties

Streamline Retail Pty Ltd ("Streamline") is a company jointly owned by two members of key management personnel (Justin Cameron and Lex Pedersen each owning a 40% share), a Group employee and an external party. The Group uses the services of Streamline to manage all technical requirements of its VRP software and to provide dedicated support resources that manage the helpdesk as well as providing ongoing software development. The terms and conditions of the transactions with Streamline are based on normal market rates for such services and were due and payable under normal payment terms.

The aggregate value of transactions and outstanding balances relating to Streamline are set out in the following table.

<i>In dollars</i>	Transaction value		Balance outstanding	
	2016	2015	2016	2015
Streamline Retail Pty Ltd	1,046,031	476,598	85,239	147,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

28. Reconciliation of cash flows from operating activities

<i>In thousands of dollars</i>		2016	2015 (*restated)
Cash flows from operating activities			
Loss for the period		(155,358)	(50,647)
Adjustments for:			
Amortisation		14,379	6,228
Depreciation		1,835	684
Equity-settled share-based payments		10,444	1,390
Impairment expense		88,999	19,702
Income tax benefit		(495)	(3,583)
Loss on disposal of property, plant and equipment		17	376
Loss on disposal of intangible assets		-	1,334
Realised foreign currency losses		259	-
Unrealised foreign currency gains/(losses)		(54)	10
Net finance income		(53)	(131)
		(40,027)	(24,637)
Changes in:			
Trade and other receivables		(590)	5,712
Inventories		14,303	5,214
Other assets		(1,665)	105
Trade and other payables		(3,355)	(5,996)
Employee benefits		373	(542)
Provisions		1,611	816
Deferred income		164	383
		(29,186)	(18,945)
Interest paid		(318)	(7)
Income tax paid		(907)	-
Net cash used in operating activities		(30,411)	(18,952)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5. In addition, there is change in classification of assets, further detail of which is disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

29. Auditors' remuneration

<i>In dollars</i>	2016	2015
Audit and review services		
Auditors of the Company - KPMG		
Audit and review of financial statements	720,455	361,850
Other auditors		
Audit and review of financial statements	31,246	6,666
Other services		
Auditors of the Company - KPMG	382,733	954,691

30. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee (the "Deed"). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The holding entity of the Deed is SurfStitch Group Limited.

The subsidiaries subject to the Deed, and the dates on which they entered into the Deed are:

SurfStitch Holdings Pty Limited	23 June 2015
SurfStitch Pty Limited	23 June 2015
SurfStitch (Europe) Limited	23 June 2015
Rollingyouth Pty Ltd	23 June 2015
Garage Entertainment Aust Pty Ltd	25 May 2016
TMG Media Pty Ltd	25 May 2016
SHI Holdings Pty Limited	25 May 2016
Fin Control Systems Pty Limited	25 May 2016
Surfing Hardware International Holdings Pty Limited	25 May 2016
Surf Hardware International Asia Pty Limited	25 May 2016
OZ4U Holdings Pty Limited	25 May 2016
Surf Hardware International Pty Limited	25 May 2016
Sunbum Technologies Pty Ltd	25 May 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. Deed of cross guarantee (continued)

Statement of profit or loss and other comprehensive income

A consolidated statement of profit or loss and other comprehensive income, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June is set out below.

<i>In thousands of dollars</i>	2016	2015 (*restated)
Revenue	94,744	47,090
Cost of sales	(64,529)	(33,548)
Gross profit	30,215	13,542
Other income	4,238	25
Selling and distribution expenses	(37,231)	(25,487)
Administrative expenses	(73,355)	(7,678)
Impairment expense	(100,508)	(19,702)
Other expenses	-	(7,471)
Finance income	2,515	807
Finance costs	(175)	(6)
Loss before tax	(174,301)	(45,970)
Income tax benefit	4,329	1,970
Loss after tax	(169,972)	(44,000)
Other comprehensive income for the period, net of tax	(1,655)	700
Total comprehensive loss for the period, net of tax	(171,627)	(43,300)
Attributable to:		
Equity holders of the Company	(171,627)	(43,300)
Loss for the period	(171,627)	(43,300)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. Deed of cross guarantee (continued)

Statement of financial position

A consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June is set out below.

<i>In thousands of dollars</i>	2016	2015 (*restated)
Current assets		
Cash and cash equivalents	15,347	35,197
Trade and other receivables	2,811	461
Inventories	12,065	11,063
Current tax assets	24	-
Other assets	2,858	865
Total current assets	33,105	47,586
Non-current assets		
Related party receivables (<i>net</i>)	-	19,030
Deferred tax assets (<i>net</i>)	5,583	(964)
Property, plant and equipment	2,949	1,615
Intangible assets	6,024	22,208
Investment in subsidiaries	3,601	70,197
Goodwill	6,609	8,436
Total non-current assets	24,766	120,522
Total assets	57,871	168,108
Current liabilities		
Trade and other payables	13,580	12,666
Employee benefits	2,173	1,060
Income tax provision	795	989
Provisions	958	1,165
Deferred income	568	278
Total current liabilities	18,074	16,158
Non-current liabilities		
Employee benefits	293	123
Provisions	880	-
Total non-current liabilities	1,173	123
Total liabilities	19,247	16,281
Net assets	38,624	151,827

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. Deed of cross guarantee (continued)

Statement of financial position (continued)

<i>In thousands of dollars</i>	2016	2015 (*restated)
Equity		
Share capital	309,090	248,325
Reserves	(56,476)	(52,498)
Retained earnings (i)	(213,990)	(44,000)
Total equity	38,624	151,827

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

(i) Retained earnings

Retained earnings has been calculated as set out in the following table.

<i>In thousands of dollars</i>	2016	2015 (*restated)
Prior period retained earnings	(44,000)	-
Adjustments for entities entering the deed	(18)	-
Current period loss after tax	(169,972)	(44,000)
Total retained earnings	(213,990)	(44,000)

* The above comparative information has been restated to reflect final business combination adjustments as required by AASB 3. Further detail is disclosed in note 5.

31. Parent entity disclosures

Throughout the financial year ended 30 June 2016, the parent entity of the Group was SurfStitch Group Limited.

Result of parent entity

<i>In thousands of dollars</i>	2016	2015
Loss for the period	(247,519)	(27,210)
Other comprehensive income	-	-
Total comprehensive loss for the period	(247,519)	(27,210)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

31. Parent entity disclosures (continued)

Statement of financial position of parent entity

<i>In thousands of dollars</i>	2016	2015
Current assets		
Cash and cash equivalents	9,373	30,488
Trade and other receivables	-	-
Related party receivables (<i>net</i>)	-	-
Inventories	-	-
Current tax assets	-	-
Other assets	273	54
Total current assets	9,646	30,542
Non-current assets		
Related party receivables (<i>net</i>)	-	64,123
Deferred tax assets (<i>net</i>)	2,953	1,611
Property, plant and equipment	317	-
Intangible assets	3	11
Investment in subsidiaries	37,650	130,614
Total non-current assets	40,923	196,359
Total assets	50,569	226,901
Current liabilities		
Trade and other payables	853	888
Deferred income	39	-
Total current liabilities	892	888
Non-current liabilities		
Employee benefits	2	-
Provisions	880	-
Total non-current liabilities	882	-
Total liabilities	1,774	888
Net assets	48,795	226,013
Equity		
Share capital	309,090	248,325
Reserves	14,434	4,898
Retained earnings	(274,729)	(27,210)
Total equity	48,795	226,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

31. Parent entity disclosures (continued)

Parent entity contingent liabilities

The Directors confirm that the parent entity does not hold any contingent liabilities that require disclosure other than those disclosed in note 26.

Parent entity capital commitments for acquisition of property plant and equipment

During the year the parent entity has not entered into any material contracts to purchase plant and equipment.

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that it guarantees debts in respect of certain subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 30.

32. Subsequent events

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 and unusual nature likely, in the opinion of the Directors to affect significantly the operations or state of affairs of the Group in future financial years.

ASX ADDITIONAL INFORMATION

For the year ended 30 June 2016

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 18 August 2016)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number of ordinary shares held
UBS Group AG and its related bodies corporate	27,996,410
Ausbil Investment Management Limited	24,738,684
FIL Limited and associated entities	23,570,322
Janchor Partners Limited	17,657,139
Perpetual Limited and subsidiaries	20,002,183

Voting rights

(i) Ordinary shares

Details about the Group's ordinary shares are disclosed in note 19 to the financial statements.

(ii) Options

There are no options on issue.

(iii) Rights and Unlisted Options

There are no voting rights attached to the rights or unlisted options.

(iv) Redeemable preference shares

There are no redeemable preference shares on issue.

(v) Non-redeemable preference shares

There are no non-redeemable preference shares on issue.

(vi) Redeemable convertible notes

There are no redeemable convertible notes on issue.

ASX ADDITIONAL INFORMATION (continued)

For the year ended 30 June 2016

Shareholdings (as at 18 August 2016) (continued)

Distribution of equity security holders

Category	Ordinary shares	Rights	Unlisted options
1 - 1,000	380	8	-
1,001 - 5,000	832	9	-
5,001 - 10,000	450	10	-
10,001 - 100,000	880	26	19
100,001 and over	163	11	2
Total	2,705	64	21

Shareholders with less than marketable parcel

The number of shareholders holding less than a marketable parcel of ordinary shares is 703.

Shares subject to escrow

There are no securities subject to voluntary escrow.

Unquoted equity securities

(i) Redeemable preference shares

There are no redeemable preference shares on issue.

(ii) Redeemable convertible notes

There are no redeemable convertible notes on issue.

Securities Exchange

The Company is listed on the Australian Securities Exchange. The Home exchange is Sydney.

Other information

SurfStitch Group Limited is incorporated and domiciled in Australia, is a publicly listed company limited by shares.

On-market buy-back

There is no current on-market buy-back.

ASX ADDITIONAL INFORMATION (continued)

For the year ended 30 June 2016

Twenty largest shareholders (as at 18 August 2016)

Shareholder	Number of ordinary shares held	Percentage of capital held
Citicorp Nominees Pty Limited	60,999,613	22.05%
HSBC Custody Nominees (Australia) Limited	28,441,514	10.28%
National Nominees Limited	24,632,861	8.91%
RBC Investor Services Australia Nominees Pty Limited	18,413,210	6.66%
Justin Paul Towells Stone	11,225,983	4.06%
J P Morgan Nominees Australia Limited	10,612,071	3.84%
Argo Investments Limited	8,130,000	2.94%
Bond Street Custodians Limited	6,000,000	2.17%
Crown Financial Pty Ltd	5,558,200	2.01%
Online Brands Pty Limited	5,098,611	1.84%
Intrepid Investments Pty Ltd	4,725,788	1.71%
Lex Ward Pedersen	2,740,766	0.99%
Pacific Custodians Pty Limited	2,054,681	0.74%
Citicorp Nominees Pty Limited	1,998,319	0.72%
Pacific Custodians Pty Limited	1,600,000	0.58%
Zippin Pty Ltd	1,510,000	0.55%
Joseph Daniel Simms	1,455,280	0.53%
HSBC Custody Nominees (Australia) Limited - A/c 2	1,360,295	0.49%
Mr Scott Anson Turner & Mrs Samantha Jane Turner	1,275,000	0.46%
Sam McIntosh	1,219,680	0.44%

DIRECTORS' DECLARATION

1. In the opinion of the Board of Directors of SurfStitch Group Limited ("the Company"):
 - a. the consolidated financial statements and notes that are set out on pages 49 to 119 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position as at 30 June 2016 of the Company and its controlled entities ("the Group") and of the Group's performance for the financial year 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 Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company 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 Company 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 year ended 30 June 2016.
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 in accordance with a resolution of Directors.



Samuel Weiss
Chairman

Sydney

30 August 2016



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, which comprises the consolidated statement of financial position 30 June 2016, and consolidated statement of profit or 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 consolidated entity 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 are 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 consolidated entity'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 consolidated entity is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year 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 20 to 33 of the directors' report for the year ended 30 June 2016. 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 year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Julie Cleary
Partner

Sydney
30 August 2016

The Remuneration Report is set out on pages 32 to 47 of the Directors' Report, as opposed to pages 20 to 33 noted above per the original version of the Audit Report over the Annual Financial Report signed by the Directors on 30 August 2016.

CORPORATE DIRECTORY

Company Secretary

Mrs Karen Birner

Principal Administrative and Registered Office

SurfStitch Group Limited
225 Burleigh Connection Road
Burleigh Heads, Queensland, 4218
Australia
Telephone: +61 7 5512 0920

Share Registry

Link Market Services Limited
Level 15
324 Queen Street
Brisbane, Queensland, 4000

Securities Exchange

The Company is listed on the Australian Securities Exchange (Listing code: SRF)
The Home Exchange is Sydney

Investor Relations

Citadel-MAGNUS
Email: investors@surfstitchgroup.com
24/7 Hotline (Australia): +61 7 5507 0931
<https://www.surfstitchgroup.com/investors/>

Auditors

KPMG
International Towers Sydney 3
300 Barangaroo Ave,
Sydney, NSW, 2000
Telephone: +61 2 9335 7225

SurfStitch:Group

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