SurfStitch Group

ANNUAL **REPORT** 2015

THE digital break

CONTENTS

CHAIRMAN'S LETTER

On behalf of the Board of Directors, it gives me great pleasure to present the 2015 Annual Report of SurfStitch Group Limited.

Introduction

SurfStitch Australia was launched out of a garage on Sydney's Northern Beaches by founders Justin Cameron and Lex Pedersen. Their journey has been quite remarkable, with SurfStitch now becoming the world's leading online action sports, media and e-commerce retailer.

The Company's ambition is to link every aspect of the surf and action sports lifestyle, from impression to purchase. Today, we have a community of over 6 million action sports enthusiasts utilising our platforms weekly.

This is the Company's first full year results period, since completing its initial public offering on the ASX on 16 December 2014.

Delivering Promised Performance

SurfStitch Group Limited has reported proforma full year FY2015 sales of $199.4 million, representing a 30% increase over the prior FY2014 year. Revenue grew in all regions, accelerating in the second half under SurfStitch Group control. Over the same period, the Group reported an increase in gross profit margin from 43.4% in FY2014 to 45.9% in FY2015.

SurfStitch Group exceeded prospectus proforma EBITDA forecast by 51% for FY2015, achieving $7.7 million.

Growth for the SurfStitch Group accelerated in all regions as the Group successfully leveraged the newly integrated businesses. Asia Pacific continued to achieve high double digit growth, whilst North America made positive progress through its business restructuring phase. Europe growth continued to accelerate and is progressively showing the benefits of our recent restructure.

The FY2015 performance reflected the successful implementation of a number of strategic initiatives aimed at growing revenue profitably, both organically and through transformative growth acquisitions.

Today, we stand as a truly global business with offices and operations in three continents.

Strategic Initiatives

Whilst we have delivered above our prospectus and upgraded guidance, we have done so while executing a number of significant strategic milestones, including:

- The majority buyout of Billabong's share in SurfStitch.
- The acquisition the US asset, SWELL, from Billabong.
- The acquisition of the UK asset, Surfdome, from Quicksilver.
- The acquisition of the world's leading user generated surf content network, and surf forecaster, Magicseaweed.
- The acquisition of Stab, a leading surf content platform.
- The commencement of our integrated content and commerce brand strategy.

Recognising that today we are one company with six highly synergistic platforms (SurfStitch.com, Surfdome.com, Swell.com, Stabmag.com, Magicseaweed.com, and theLens), we will be consolidating to one global e-commerce website under the name SWELL.

This will accelerate our vision of being the global destination for the action sports and youth demographic.

The Board

I would like to thank Stephen Goddard for his valuable contribution and support, and welcome Jane Huxley's Board appointment, effective June 2015. Jane has strong technology, media and telecommunications experience.

I would also like to acknowledge Surfdome UK founder, Justin Stone's contribution since his appointment to the Board following the December 2014 listing.

The SurfStitch Team

I would like to specifically acknowledge Justin Cameron, Lex Pedersen and Justin Stone for their remarkable efforts and commitment to the newly formed Surfstitch Group, and their vision to becoming the significant global player in their field. I would also like to welcome Sam McIntosh to the Group, founder of Stab, who shares our vision.

FY2016 Guidance

FY2016 outlook is for strong double digit revenue growth to continue as the Group benefits from a full year's run rate of FY2015 initiatives. EBITDA in particular is expected to have a stronger second half in FY2016 as our rebranding and strategic plan gain further traction, with full year FY2016 EBITDA expected to range between $15-18 million (growth of 100% +).

Additional opportunities for growth exist through acquisitions to support the Group's strategy.

No dividends are currently planned. Cash will continue to be reinvested in growth, given recognisable double digit growth opportunities.

Howard McDonald
Chairman

CEO'S LETTER

Financial Performance

I'm very excited to report that in our first full year results period, we have delivered above our prospectus and upgraded guidance.

In what was both an extremely exciting and challenging year for our business, as our Chairman communicated, we executed on a number of milestones that would not have been possible without the dedication and focus of our global teams.

Pro forma sales increased by 30% in FY2015 as we benefitted from an expanded geographical footprint and high-quality new traffic generated by improved customer engagement through our new content platforms.

Asia Pacific continued on its trajectory of high double digit growth, while North America made positive progress through its business restructuring phase. Europe growth continues to accelerate and is showing the benefits of the recent restructure.

Our new merchandising strategy, better stock management and improved partnerships with key suppliers contributed to our 251bps pro forma gross margin improvement on FY2014.

We delivered an impressive 51% increase on prospectus pro forma EBITDA. Improvements in all key operating cost line items contributed to improved profitability across the Group, resulting in $7.7 million of pro forma EBITDA.

Our FY2015 results of strong double digit revenue growth with positive EBITDA reflect our commitment to our shareholders to grow revenue profitability.

Asia Pacific

The Asia Pacific business continued its strong growth momentum (up 44% yoy), driven by improving inventory levels, stronger conversion and increased average order values, despite a challenged domestic retail landscape.

Expansion opportunities exist in Asia Pacific that will include the launch of a dedicated Japanese website together with further expansion into broader regional markets.

Europe

European growth accelerated in the second half of FY2015 with increased penetration into the broader European markets. France, Germany, Spain and the Nordic regions provided for a full year growth of 22%. Importantly, the core UK business witnessed accelerating growth rates and has delivered growth above 20% in the second half of FY2015.

Outside of launching local language websites in the Nordic regions, growth opportunities exist in Europe from aligning the optimal product assortment across the retail businesses.

North America

The repositioning strategy around product and brand in North America delivered early signs of positive trends with the region experiencing 17% sales growth for FY2015. Building the full momentum of this strategy takes time, but with the restructuring of inventory and brand assortment, we are well positioned to further reinvigorate growth in line with group objectives.

Although expansion into South America is a long-term growth opportunity, the focus in the interim will be on elevating SWELL as the new global brand and driving traffic from our recent media acquisitions to our North American operations.

Building a Digital Eco-System

In FY2015, the Group made important strategic steps towards building a foundation that can support our vision of becoming the dominant and undisputed global leader in action sports and youth lifestyle by acquiring two industry leading content businesses.

These highly complementary acquisitions represent the voice of our core audience and provide us greater insight into their preferences, influences and purchasing behaviour.

Our FY2015 acquisitions accelerated our strategic initiative of becoming a digital ecosystem, capable of capturing and influencing customers at all points of the surf and action sports lifestyle. As demonstrated by our FY2015 results, this strategy delivers results.

Committed to Media & Content

In order to maximise the synergistic benefits of our acquisitions, we will be consolidating our global ecommerce assets under the single brand name SWELL.

Customers will benefit from a unified shared platform with access to media, content, engagement, athletes and commerce across all devices. Complementing this, access to our global audience of 6 million plus action sports enthusiasts through one global brand portal provides suppliers with instantaneous global reach and scale.

Under our global rebranding strategy we will be increasing our efficiency, reducing costs whilst elevating the experience for our customers and our key stakeholders.

Outlook

We expect strong double digit revenue growth in FY2016, with full year FY2016 EBITDA ranging between A$15-A$18 million (growth of 100%+).

Our growth in FY2016 will benefit from expansion into new geographies, together with more seamless integration of our media strategy into ecommerce.

Importantly our global rebranding to SWELL is expected to generate ~A$12.5m of run-rate EBITDA & capex synergies by 2017 as we consolidate technology platforms and core operating structures.

I would like to take this opportunity to thank our employees that have navigated a period of significant change as we moved from a private company with operations in Australia to a truly global business with operations in Asia Pacific, Europe and North America

And to our shareholders and board members for their support and belief in our brand and providing us the necessary flexibility to execute on these exciting new opportunities.

Justin Cameron
Global Group CEO
and Managing Director.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

HOWARD MCDONALD

Independent Non-Executive Chairman

Appointment to the Board

October 2014

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 Director of Myer from November 2006. Howard is currently Chairman of Rodd & Gunn Australia and Rodd & Gunn New Zealand.

Directorships of listed entities (last three years)

Previously Chairman of Myer Holdings Ltd.

STEPHEN GODDARD

Independent Non-Executive Director

Appointment to the Board

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 Pacific Brands Ltd.

JANE HUXLEY

Independent Non-Executive Director

Appointment to the Board

June 2015

Committee memberships

Audit, Risk and Compliance;

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)

EXECUTIVE DIRECTORS

JUSTIN CAMERON

Chief Executive Officer and
Managing Director

Appointment to the Board

October 2014

Committee memberships

Audit, Risk and Compliance

Qualifications

Bachelor of Commerce from the University of Sydney

Skills and experience

Justin co-founded the SurfStitch business in 2007 and has since held several senior management roles in Australia and Europe 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

LEX PEDERSEN

Managing Director and
President of Swell

Appointment to the Board

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 the Australia, Europe 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

Managing Director, Europe

Appointment to the Board

December 2014

Committee memberships

None

Qualifications

Bachelor of Science in Economics from University College London

Skills and experience

Justin founded the Surfdome business in 2006 and has held the Managing Director role since. Justin has over eight years experience in online Action Sports retailing.

Directorships of listed entities (last three years)

None

OPERATING AND FINANCIAL REVIEW

INTRODUCTION

The Directors are pleased to present the full year Operating and Financial Review (OFR) for SurfStitch Group Limited (SGL) and its subsidiaries (collectively, SurfStitch or the Group). The OFR is provided to assist shareholders' understanding of the Group's business performance and the factors underlying the Group results and financial position.

SurfStitch Group Limited was incorporated on 13 October 2014, and completed an Initial Public Offering on the Australian Securities Exchange on 16 December 2014. Given the Group listed in December 2014, comparisons to the previous financial year and to the forecast contained in the IPO Prospectus (Forecast) are provided on both a Statutory and Pro Forma basis. The Directors believe that the Pro Forma presentation of results is a better indicator of underlying performance and differs from the Statutory presentation.

The Group's underlying Pro Forma performance reflect the full year effect of the operating structure that was put in place at the time of the IPO and excludes one-time costs associated with the IPO-Listing and subsequent capital raising; acquisition and integration of new operations; corporate restructure and divestiture in redundant infrastructure.

This review covers the period from 1 July 2014 to 30 June 2015, including the prior corresponding period. Refer to page 11 for further detail on the statutory and Pro Forma reporting periods, and to the table in the column opposite for a summary of Pro Forma performance.

HIGHLIGHTS

In FY15, our first result following the December 2014 Initial Public Offering (IPO), SurfStitch exceeded its Prospectus Pro Forma Forecast and delivered strong revenue and earnings growth on all key performance measures. Pro Forma revenue increased $45.3 million (29.4%), Pro Forma EBITDA increased $11.1 million, and Pro Forma PBT increased $12.2 million. Profitability and cash flow strengthened as Pro Forma EBITDA margin lifted to 3.9% to reach $7.7 million, from a loss of $3.4 million in the prior comparable period.

millions

PRO FORMA	FY14	FY15	CHANGE
Revenue	$154.1	$199.4	29.4%
Gross Profit	$66.9	$91.6	36.9%
EBITDA	($3.4)	$7.7	nm
PBT	($8.1)	$4.1	nm

STATUTORY[1]	FY14	FY15	CHANGE
Revenue	na	$97.9	na
Gross Profit	na	$37.3	na
EBITDA	na	($35.1)	na
PBT	na	($37.5)	na

[1] includes one-time expenses such as separation and restructuring costs associated with Billabong and Quiksilver Groups and acquisitions, IPO listing, transaction and capital raise fees.

We executed on the following significant milestones in FY15:

- Separation from Billabong and Quiksilver Groups
- Completed capital raise and acquisitions of Magicseaweed and Stab
- Accelerated growth in all regions
- Commenced phase 1 of integrated media and commerce brand strategy

OPERATING REVIEW

OUR BUSINESS MODEL

The Group has grown to now have operations in Australia, UK and North America, employing over 400 people globally.

The Group sources products from over 500 suppliers globally, with the majority of inventory sourced directly from brand owners. We also have relationships with wholesale distributors and agents/resellers, through which we procure inventory. The strength of our supplier relationships enables us to negotiate trading arrangements that we considers to be attractive.

While SurfStitch Australia, Surfdome Shop (UK) and Swell (US) are operated separately on a day-to-day basis, in order to ensure latitude is afforded to each business to pursue regional strategies, all regions share certain infrastructure, resources and information. For example, trademarks, customer engagement strategies, and some shared services. Distribution centres operate on an integrated basis, enabling them to fulfil orders depending on where it is most economic to do so.

KEY BRANDS AND PRODUCTS

The Group works closely with the world's leading brands to bring our customers exclusive, unique styles unavailable from any other retailer globally. Our teams are also working with exciting, emerging new brands to deliver to our customers the freshest assortment of curated styles, while our content harnesses the power of communities to provide an improved product offering and embrace the growth potential of the increasingly connected world.

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

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

OUR RETAIL WEBSITES

SurfStitch

SurfStitch began in 2008 when two surfing friends identified a gap in the market with the Australian surf retail market. Now, with over 20 years industry experience, a passion for customer service and one of the strongest product knowledge backgrounds in the industry, Lex Pedersen and Justin Cameron have brought to life a unique global actions sports and apparel retail experience. From the very first order, the duo has been the driving force behind SurfStitch, providing shoppers from around the world with a high quality and unique experience.

SWELL

NORTH AMERICA - THE SWELL LIFE

Swell has been established since 1999 and is located in Irvine, Southern California. Since Swell's launch, the business has always strived to be more than another surf clothing and hardware retailer and has a global reputation for carefully curated brands across key surf and apparel categories. Swell joined the SurfStitch group in 2014 and provides the group with a powerful footprint in North America, Canada and beyond.

surfdome

#ENJOY THE RIDE

Surfdome was launched in 2006 by founder and now SurfStitch Group board member Justin Stone. Headquartered in London, Surfdome.com has become the definitive action sports and lifestyle destination in Europe, holding over 600 over the world's leading Action Sports, Lifestyle and Outdoor brands. Surfdome joined the SurfStitch Group in 2014.

OPERATING AND FINANCIAL REVIEW
CONTINUED

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 May 2015, SurfStitch Group agreed to acquire Magicseaweed and Stab Magazine. The acquisitions accelerate the delivery of SurfStitch's strategy to become the global destination for action sports and youth lifestyle content and online retail. Magicseaweed, Stab Magazine and SurfStitch, together, will represent a digital ecosystem capable of capturing and influencing customers at all points of the surf and action sports lifestyle cycle.

Magicseaweed and Stab Magazine are both global leaders in their respective online platforms. Magicseaweed is the world's leading online surf forecaster and user generated surf content network and Stab Magazine is the world's leading online surf publishing and content provider. Together, they attract over 2.75 million unique monthly visitors to their websites.

By leveraging content from Magicseaweed and Stab to attract and retain a rapidly evolving and increasingly sophisticated customer base, SurfStitch Group aims to significantly enhance customer engagement levels throughout its family of ecommerce platforms. Magicseaweed, Stab Magazine and SurfStitch, together, represent a digital ecosystem capable of capturing and influencing customers at all points of the surf and action sports lifestyle cycle.

msw magicseaweed

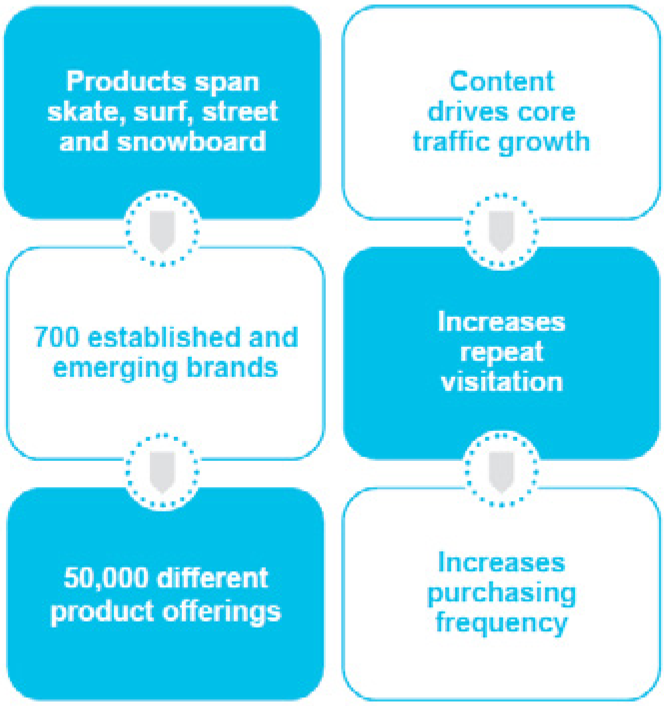
Headquartered in the UK, Magicseaweed is the world's largest user generated surf content network, providing forecasting and live reporting of over 4,000 beaches across the globe. Magicseaweed was founded in 2002 and has become the world's leading online surf forecasting platform, used by surfers and water sports enthusiasts in over 200 countries. Magicseaweed serves the key markets of North America, Europe and Australia, attracting over 2 million unique monthly users to its site, and over 1 million app downloads.

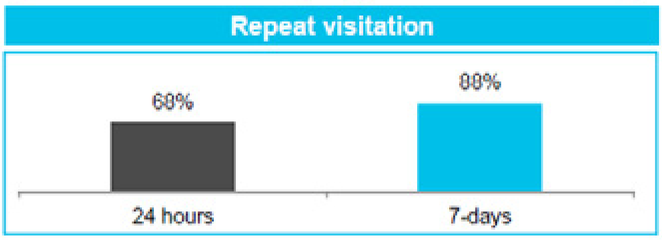
STAB WE LIKE TO SURF

Stab Magazine is the world's leading online surf publishing network. Established in 2004 and headquartered in Sydney, 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. It has become a social media hub in surf and a trusted source of product reviews, exclusive content and access to athletes and brands. Stab Magazine drives over 750,000 unique monthly users to its site.

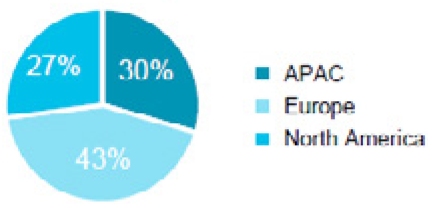
OUR BUSINESS MODEL TODAY

A digital ecosystem.





Users by region



INDUSTRY OVERVIEW - ACTION SPORTS SEGMENT

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

Many of the well-known brands in the Action Sports segment are owned by aggregated brand managers such as Billabong, Nike, Quiksilver, Rip Curl and VF Corp. These products are generally sold through wholesalers or directly to the consumer through a network of company owned stores. Multi-brand retailers such as PacSun, Tilly's and Zumiez are also seeking to invest in and grow their proprietary brand offerings.

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

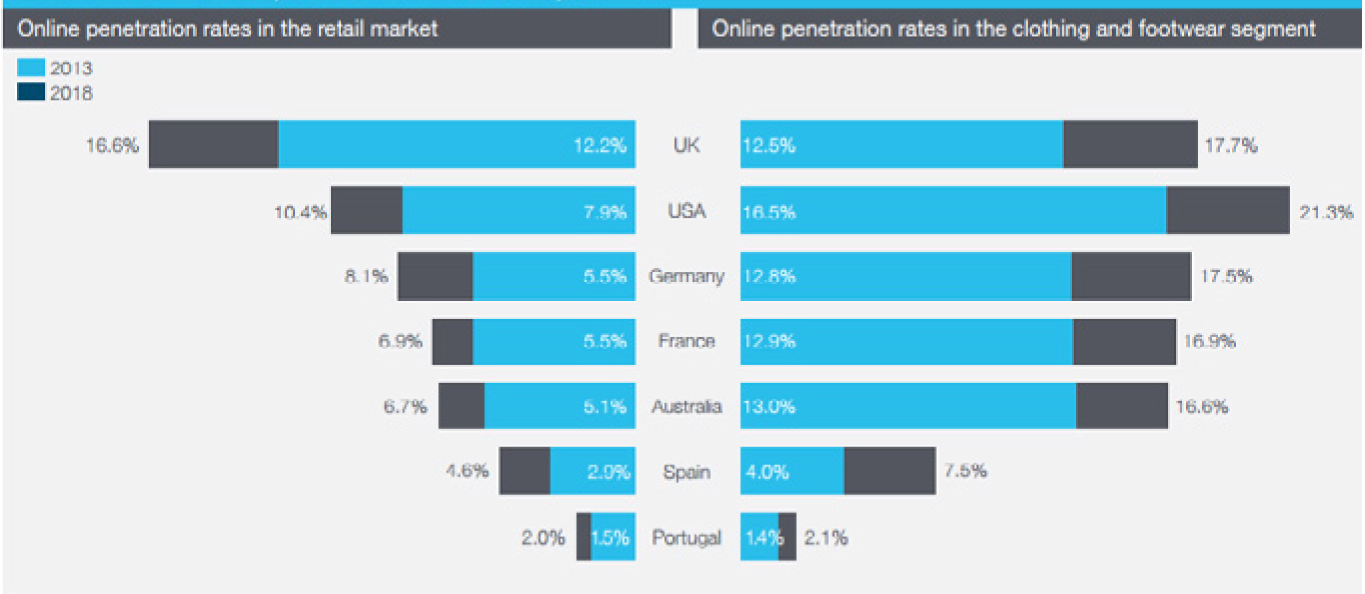
A recent trend in the Action Sports segment is the growth in consumer demand for niche brands and cross-over brands (street, skate, urban).

When questioned about their spending behaviour, brand preferences and influences in Piper Jaffray's spring 2014 Taking Stock With Teens survey, teenagers in the USA named 59 unique brands and retailers in the Action Sports lifestyle category, up from 47 in Autumn 2013 and 35 in spring 2013. This indicates increased awareness of Action Sports brands amongst youth culture.

INDUSTRY OVERVIEW - ACTION SPORTS SEGMENT SIZE

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

Exhibit 2.3 Online retail penetration rates across key countries

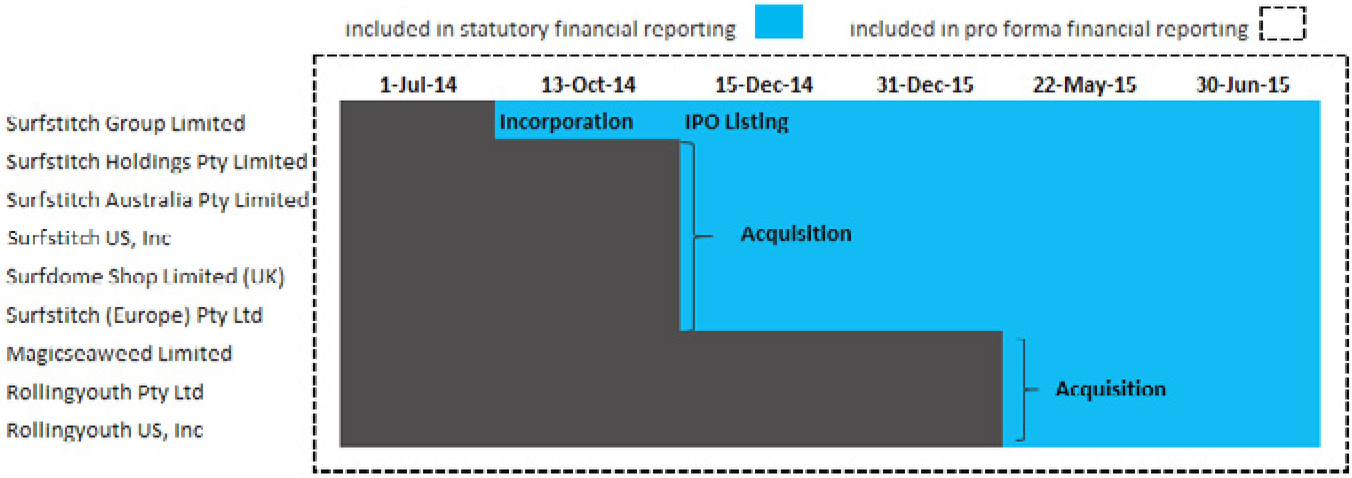


Source: Canadean.

FINANCIAL REVIEW

REPORTING PERIODS

The section shaded blue in the diagram below represents that period of FY15 included in the SurfStitch Group Statutory Financial Statements, for each entity in the Group.



Key Dates

- 13 October 2014: SurfStitch Group Limited (SGL) was incorporated on 13 October 2014
- 16 December 2014: SGL Listed on the ASX on 16 December 2014
- 16 December 2014: SGL acquired 100% of the equity of SurfStitch Holdings Pty Limited (SHPL) and it's subsidiaries
- April 2014: discontinued operations in France
- May 2014: undertook a second capital raising to fund the May acquisitions
- 22 May 2014: the acquisition of 100% of the equity of Magicseaweed and Stab Magazine (Rollingyouth Pty Ltd and its US subsidiary)

OPERATING AND FINANCIAL REVIEW
CONTINUED

PROFIT OR LOSS

(AUD millions)

In order to provide a comprehensive view of the consolidated business and to provide visibility into year over year comparisons, pro forma adjustments have been taken to reflect the full fiscal year period of 1 July 2014 to 30 June 2015. Pro forma adjustments to the statutory accounts include the assumption that SurfStitch, Surfdome, SWELL, Magicseaweed and Stab were acquired as at 1 July 2014 with their earnings included in all periods shown.

	PRO FORMA			STATUTORY - CONTINUING	
	FY2015 ACTUAL	PROSPECTUS FORECAST	FY2014 ACTUAL	FY2015 ACTUAL	FY2014 ACTUAL
Revenue	$199.4	$199.1	$154.1	$97.9	NA
Gross profit	$91.6	$89.7	$66.9	$37.3	NA
Gross profit margin %	45.9%	45.0%	43.4%	38.1%	NA
EBITDA	$7.7	$5.1	($3.4)	($35.1)	NA
EBITDA margin%	3.9%	2.6%	(2.2%)	(35.8%)	NA

Revenue

Total sales grew by 30% for the full year FY15 to $199.4 million. In FY15 the SurfStitch Group focused on aligning the optimal product assortment across the retail businesses as it integrated the newly acquired UK and US assets. The importance of the merchandise strategy was evidenced in the accelerated sales growth across all regions. The Asia Pacific business continued its strong growth momentum (up 44% yoy), driven by improving inventory levels, stronger conversion and increased average order values, despite a challenged domestic retail landscape.

European growth elevated in 2H15 with increased penetration into the broader European markets.

France, Germany, Spain and the Nordic regions provided for a full year growth of 22%. Importantly, the core UK business witnessed accelerating growth rates and has delivered growth above 20% in 2H15. The repositioning strategy around product and brand in North America is delivering early signs of positive trends with the region experiencing 17% yoy sales growth for FY15. Building the full momentum of this strategy takes time, but with the restructuring of inventory and brand assortment, we are well positioned to further reinvigorate growth in line with group objectives.

	PRO FORMA			STATUTORY - CONTINUING	
	FY2015 ACTUAL	PROSPECTUS FORECAST	FY2014 ACTUAL	FY2015 ACTUAL	FY2014 ACTUAL
Asia-Pacific	$82.9	$81.5	$57.3	$42.6	NA
Europe	$87.3	$87.4	$71.7	$44.2	NA
North America	$29.1	$29.7	$24.9	$15.6	NA

Gross Profit

The 251bps improvement in gross profit margin for the full year FY2015 was delivered as a result of the Group's new merchandising strategy, improved vendor terms and improved Group conversion rates. By leveraging our global buying power and audience influence we have been able to partner with suppliers to offer customers exclusive brands, products and content, driving premium pricing engagement.

Importantly, the focus away from fast fashion inventory to curated, branded and athlete authenticated inventory, delivered price and margin expansion in all key product categories. The improved stock turn and product sell-through are expected to accelerate as content is further entrenched in the customer experience.

Operating Expenses

The Group worked intensively to integrate the businesses as quickly as possible to realise economies of scale and synergy benefits. Focus on removing duplication globally and closure of the local French operations resulted in a 455bps improvement in operating costs to sales.

Improvements in all key operating cost line items, contributed to improved profitability across the Group (table below).

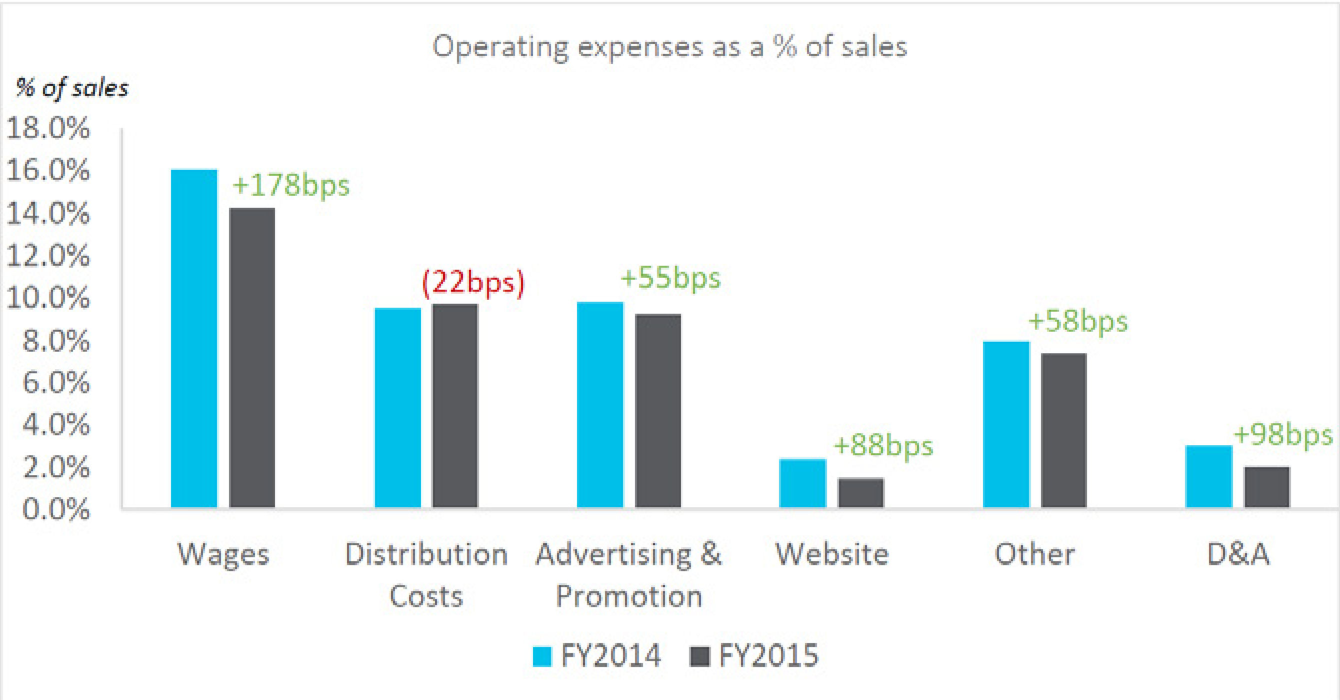
Labour costs for FY15 decreased as ratio of sales by 178bps vs FY14. Improved labour efficiencies across Group functions was the primary driver.

Marketing investment continued its disciplined approach, gained through ROI visibility, a focus on high yield channels and the removal of redundant strategies.

As expected, ceasing to manage third party websites and more effectively redeploying assets across owned platforms delivered a website expenses improvement of 88bps.

These operating cost improvements were achieved despite the meaningful investment in integrating Surfdome and SWELL into the broader Group.

Table 3: Revenue, gross profit and operating expenditure (millions)



OPERATING AND FINANCIAL REVIEW
CONTINUED

Depreciation and Net Finance

IT investment focused on the SurfStitch Group platforms in the second half and reflected the additional capacity from fully separating from the Billabong and Quiksilver Groups.

There is no debt at the SurfStitch Group or subsidiary levels. The resulting decrease in interest expense and interest income gained from proceeds of the IPO, capital raise and SPP. These had a positive impact to net financing in FY2015 that will continue into FY2016.

Cash Generating and Working Capital

The broadly neutral Pro Forma cash flow from operations of (A$1.4m) was delivered despite significant working capital investment to drive continued top line growth improvements. FY15 resulted in improved stock turn and trading terms. As the full run-rate benefits of our strategy take effect and integration costs fall away, we expect cash flow from operations to continue to improve.

Capital Expenditure

Capital expenditure for the Group was $7.3m for 2015, predominantly invested in core IT and warehousing solutions. In anticipation of growth and capacity requirements to support growth, the SurfStitch Group has made significant capital investments in IT platforms, including capital expenditures to build-out the IT infrastructure across the Group's platforms in order to offer customers a quality experience across all of our websites and across all types of devices.

Strong Balance Sheet

The SurfStitch Group has no debt at the group or subsidiary levels and is in a net cash position as of 30 June 2015.

FX Impact

The 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 price at the regional level and minimise impact to costs by sourcing the most effectively, we report in Australian dollars but also earn revenues in US dollars and British pounds. Although FX movements have been most favorable to the US business, North America represents ~16% of total global consolidated sales. As such, FX impact has not been material to the overall trends of the consolidated business.

FX RATE TO AUSTRALIAN DOLLARS	FY2015	FY2014
Region		
USD:AUD	1.2117x	1.0958x
GBP:AUD	1.8859x	1.7873x

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 16 December 2014 (the date the company was admitted to the Official list of the ASX) to 30 June 2015, it considers that it has complied with the ASX Principles and Recommendations (CGPR).

This Corporate Governance Statement was approved by the Board of Directors and is current as at 30 June 2015.

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 6 and 7 of the Annual Report. Details of their attendance at Board and Committee meetings during the year, are set out on page 28 of the Annual Report.

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.

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; and
- Remuneration and Nomination Committee.

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

AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee 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 and management 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 Audit, Risk and Compliance Committee consists of three Non-executive Directors, and is Chaired by an independent Director who is not a Chair of the Board.

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 four times a year.

A copy of the Audit, Risk and Compliance Committee Charter is available at www.surfstitchgroup.com/investors.

REMUNERATION AND NOMINATION COMMITTEE

SurfStitch has established a Remuneration and Nomination Committee 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 Remuneration and Nomination Committee consists of three members, also Non-executive Directors (of whom are independent), with an independent Chair. The Remuneration and Nomination Committee meets as often as its members deem necessary in order to fulfil their role. However, it is intended that the Remuneration and Nomination Committee will meet at least twice a year.

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.

External search organisations may be engaged (as appropriate) to assist the Board 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.

As at the date of this Corporate Governance Report, no candidate had been put before shareholders for appointment or election. In the event of same, SurfStitch will follow the selection process, including:

- 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;
- 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 Remuneration and Nomination Committee 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 Remuneration and Nomination Committee 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.

A Board performance review was conducted in July/August 2015. The next performance review of the Board is scheduled to be conducted in July 2016.

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 twice yearly one-on-one performance evaluations with individual Senior Management members to assess whether they have met their KPIs set in the preceding year. FY15 performance reviews were conducted for all Board members in July and August 2015.

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.

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.

SurfStitch aims to achieve its diversity and inclusion objectives by:

- Having a management committee dedicated to fostering improvements in diversity and inclusion;
- Broadening the field of potential candidates for Senior Management and Board appointments;
- Increasing the transparency of the Board appointment process; and
- Embedding the extent to which the Board has achieved the objectives of the Policy in the evaluation criteria for the annual Board performance evaluation.

CORE GENDER DIVERSITY STATISTIC

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 *	23%
Other	26%
All employees	26%

* senior direct reports of the Managing Directors

As SurfStitch has only been listed on the ASX since December 2014, the Board is in the process of setting measurable objectives for achieving gender diversity. SurfStitch will report against these measurable objectives in the 2016 Annual Report.

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.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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 a Remuneration and Nomination Committee 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 Board considers its current size to be appropriate to discharge its duties effectively.

The names of current Directors and the date they were appointed to the Board are set out on page 28 of the Annual Report.

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: Howard McDonald (Chairman of the Board), Stephen Goddard and Jane Huxley; and
- The remaining three Directors, Justin Cameron, Lex Pedersen and Justin Stone are Managing Directors.

The current composition of the Board is reflective of the size of SurfStitch and the shareholdings of SurfStitch's substantial shareholders. 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. Given this, the Board considers the overall composition of the Board is currently appropriate in SurfStitch's circumstances, and that it is well placed to fulfil its responsibilities.

The Chairman is an Independent Non-executive Director and there is a clear division of responsibility between the Chairman and the Chief Executive Officer.

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 has been 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	OUT OF 6 DIRECTORS	%
Retail industry	5	83%
Digital technology strategy and governance	4	67%
Business strategy and executive experience	6	100%
Corporate finance and capital management	5	83%
Human resources, people and culture	3	50%
Corporate governance, compliance, risk and management	2	33%
Content marketing strategy	4	67%
International and new markets strategy	6	100%

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 Audit, Risk and Compliance Committee 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 13 October 2014 to 30 June 2015, from the CEO and the CFO prior to approving the 30 June 2015 results.

AUDITOR AT 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' continuous disclosure obligation. The Disclosure Committee comprises key management - the CEO, the CFO, and the Company Secretary (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;
- 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 Audit, Risk and Compliance Committee 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 Audit, Risk and Compliance Committee's primary roles with respect to risk management and compliance are to review and report to the Board that:

- The Audit, Risk and Committee 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 Audit, Risk and Compliance Committee.

Since listing, the Audit, Risk and Compliance Committee 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 Audit, Risk and Compliance Committee will continue to review SurfStitch's risk management framework during 2016.

INTERNAL AUDIT

The Audit, Risk and Compliance Committee 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 Audit, Risk and Compliance Committee 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 Audit, Risk and Compliance Committee, 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 FAIRLY AND RESPONSIBLY

REMUNERATION AND NOMINATION COMMITTEE

SurfStitch has established a Remuneration and Nomination Committee 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 oOh!media, 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.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

The extent SurfStitch's corporate governance practices satisfy the ASXCGC Principles and Recommendations are detailed below (relating to the period commencing on 16 December 2014, the date the Company was admitted to the Official list of the ASX).

RECOMMENDATION		COMPLY	REFERENCE
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	Yes	Page 17
	(b) Those matters expressly reserved to the board and those delegated to management	Yes	Page 17
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 18
	(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 18
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 18
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 19
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 19
	(b) Disclose that policy or a summary of it; and	Yes	Page 19
	(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 19
	(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 19
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 18
	(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 18
1.7	A listed entity should:		
	(a) Have and disclose a process for periodically evaluating the performance of its senior executives; and	Yes	Page 19
	(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 19

RECOMMENDATION		COMPLY	REFERENCE
Principle 2 – Structure the board to add value			
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 18
	(2) Is chaired by an independent director;	Yes	Page 18
	And disclose:		
	(3) The charter of the committee;	Yes	Page 32
	(4) The members of the committee; and	Yes	Page 32
	(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 an 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 20
2.3	A listed entity should disclose:		
	(a) The names of the directors considered by the board to be independent directors;	Yes	Page 20
	(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	Yes	Page 20
2.4	A majority of the board of a listed entity should be independent directors.	Yes*	Page 20
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 20
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 20
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;	Yes	Page 21
	(b) Disclose that code or a summary of it.	Yes	Page 21

CORPORATE GOVERNANCE STATEMENT
CONTINUED

RECOMMENDATION	COMPLY	REFERENCE
* The current composition of the Board is reflective of the size of SurfStitch and the shareholdings of SurfStitch's substantial shareholders. 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. Given this, the Board considers the overall composition of the Board is currently appropriate in SurfStitch's circumstances, and that it is well placed to fulfil its responsibilities.		
Principle 4 – Safeguard integrity in corporate reporting		
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	Yes	Page 18
(2) Is chaired by an independent director, who is not a chair of the board,	Yes	Page 18
And disclose:		
(3) The charter of the committee;	Yes	Page 18
(4) The relevant qualifications and experience of the members of the committee; and	Yes	Pages 6-7
(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 21
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 21
Principle 5 – Make timely and balanced disclosures		
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 21
(b) Disclose that policy or a summary of it.	Yes	Page 21
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.	Yes	Page 22
6.2 A listed entity should design and implement an investor relations program to facilitate effective two way communication with investors.	Yes	Page 22
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 22
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 22

RECOMMENDATION		COMPLY	REFERENCE
Principle 7 – Recognise and manage risk			
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 18
	(2) Is chaired by an independent director.	Yes	Page 18
	And disclose:		
	(3) The charter of the committee;	Yes	Page 18
	(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 22
	(b) Disclose, in relation to each reporting period, whether such a review has taken place.	Yes	Page 22
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	Yes	Page 23
	(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 23
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 23
Principle 8 – Remunerate fairly and responsibly			
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 18
	(2) Is chaired by an independent director;	Yes	Page 18
	And disclose:		
	(3) The charter of the committee;	Yes	Page 32
	(4) The members of the committee; and	Yes	Page 32
	(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	
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and other senior executives.	Yes	Page 32
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 23
	(b) Disclose that policy or a summary of it.	Yes	Page 23

This Corporate Governance Statement is current as at 26 August 2015 and has been approved by the Board.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of the Group comprising of SurfStitch Group Limited (the Company), and its subsidiaries for the period 13 October 2014 to 30 June 2015.

PRINCIPLE ACTIVITIES

The SurfStitch Group is an action sports and youth culture apparel content network and online retailer. The principal activities of the Group during the course of the reporting period were online retail and online advertising and publication.

DIRECTORS

The names of Directors who held office during the period 13 October 2014 to 30 June 2015 of SurfStitch Group Limited are as follows:

DIRECTOR	TYPE	APPOINTED DATE	RESIGNATION DATE
Howard McDonald	Chairman and Independent Non-Executive Director	13 October 2014	-
Stephen Goddard	Independent Non-Executive Director	7 November 2014	-
Jane Huxley	Independent Non-Executive Director	12 June 2015	-
Justin Cameron	Executive Director	13 October 2014	-
Lex Pedersen	Executive Director	7 November 2014	-
Justin Stone	Executive Director	16 December 2014	-

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report appear on pages 4 and 5 of the Annual Report.

DIRECTOR'S MEETINGS

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

	BOARD MEETINGS		AUDIT, RISK AND COMPLIANCE MEETINGS		REMUNERATION AND NOMINATION COMMITTEE	
DIRECTOR	A	B	A	B	A	B
H McDonald	5	5	2	2	2	2
S Goddard	5	5	2	2	2	2
J Huxley	-	-	-	-	-	-
J Cameron	5	5	-	-	-	-
L Pedersen	5	5	-	-	-	-
J Stone	5	5	-	-	-	-

A – Number of meetings attended
B – Number of meetings eligible to attend

COMPANY SECRETARY

Karen Birner was appointed Company Secretary of SurfStitch Group Limited in October 2014.

Karen holds a Bachelor of Commerce degree from Bond University and is a member of the Institute of Charted Accountants Australia (ICAA), and a Member of the Australian Institute of Company Directors. Karen joined SurfStitch in September 2014 as the Group Chief Financial Officer and held that position at 30 June 2015. Karen is also Company Secretary of a number of SurfStitch Group subsidiaries.

DIRECTOR'S INTERESTS

The relevant interests of each director in the equity of SurfStitch Group Limited, as notified by the directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	ORDINARY SHARES	LOAN SHARES	OPTIONS OVER ORDINARY SHARES	RIGHTS OVER ORDINARY SHARES
H McDonald	1,510,000	-	-	-
S Goddard	210,000	-	-	-
J Huxley	-	-	-	-
J Cameron	12,931,090	400,000	-	-
L Pedersen	10,666,135	400,000	-	-
J Stone	11,425,983	-	-	-

OPERATING AND FINANCIAL REVIEW

The consolidated loss attributable to owners of the parent entity for the period 13 October 2014 to 30 June 2015 was $47.28 million. A review of operations and results of the Group for the period 13 October 2014 to 30 June 2015 is set out on page 8 of the Annual Report.

DIVIDENDS

No dividends were paid to members or determined by SurfStitch Group with respect to the period 13 October 2014 to 30 June 2015. The Board do not intend to pay dividends with respect to the period 13 October 2014 to 30 June 2015.

EVENTS SUBSEQUENT TO REPORTING DATE

At the date of this report no item, transaction or event of a material and unusual nature has arisen in the interval between 30 June 2015 and the date of this report that has significantly affected or may affect:

a. the operations of the Group;

b. the results of those operations in future financial years; or

c. the Group's state of affairs in the future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than the developments described in this report, the Directors are of the opinion that no other matters or circumstance will significantly affect the operations and expected results of the Group.

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 consolidated entity 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 during the period covered by this report.

SHARE OPTIONS

There are no ordinary shares of SurfStitch Group Limited issued on the exercise of options up to the date of this report.

DIRECTORS' REPORT
CONTINUED

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company, to the extent permitted by law, indemnifies the current directors of the Company 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 SurfStitch Group Limited or its controlled entities. SurfStitch may enter into contracts with a Director or former Director agreeing to provide continuing access to Board papers, books, records and documents of SurfStitch which relate to the period during which the Director or former Director was a Director. SurfStitch may arrange that its controlled entities provide similar access to board papers, books, records or documents.

Insurance Premiums

Since 13 October 2014, the Company has paid insurance premiums of $20,545 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 willful breach of duty or improper use of information or position to gain a personal advantage.

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 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 period 13 October 2014 to 30 June 2015 are detailed on in Note 29 on page 90 of the Financial Report.

PROCEEDINGS ON BEHALF OF THE GROUP

No proceedings have been brought on behalf of the Group, nor have any applications been made in respect of the Group under section 237 of the *Corporations Act 2001* (Cth).

LEAD AUDITOR'S INDEPENDENCE

The Lead auditor's independence declaration is set out on page 54 and forms part of the Directors' Report for the period 13 October 2014 to 30 June 2015.

ROUNDING OFF

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

I am pleased to present the Remuneration Report for the reporting period ended 30 June 2015.

2015 has been a very successful year for SurfStitch, highlighted by a number of key achievements including:

- Successfully listing on the Australian Securities Exchange (ASX) on 16 December 2015;
- Exceeding Pro Forma revenue and EBITDA targets disclosed in the Prospectus;
- The successful acquisitions of Surfdome, SWELL, Stab Magazine and Magicseaweed;
- The integration of the business into our global platform, improving our branding and content control, and allowing for significant opportunities for efficiencies going forward; and
- Successful expansion into new geographic regions

The success has been reflected in the share price which has increased from $1.00 at the time of listing to $1.83 at 30 June 2015.

In order to provide all relevant information to investors, the 2015 Remuneration Report outlines both the legacy remuneration items that were put in place prior to IPO and which vested at the time of listing, and the remuneration framework that the current Board has implemented post-listing. It is noted that following the successful listing on the ASX, Key Management Personnel have been compensated in line with the new remuneration framework.

GOING FORWARD

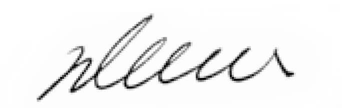
The significant growth of the Group, and a restructure of the management responsibilities, resulted in the Board undertaking a review of the remuneration packages provided to Justin Cameron and other Executives from FY2016. The key changes arising from the review are:

- an increase in the Fixed Annual Reward (base pay plus super) for Justin Cameron's role for FY16 to reflect a TFR that is positioned slightly below the median of the comparator group (the current TFR is positioned below the 25th percentile of the comparator group); and
- adjustments to the short-term incentive for a number of roles to enable additional reward where stretch targets are achieved.

Further details of the changes are included in the attached report.

The Committee 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 and the Committee, I invite you to read the 2015 Remuneration Report and welcome any feedback that you may have.

Yours sincerely



Howard McDonald
Chairman

REMUNERATION REPORT [AUDITED]

INTRODUCTION

The Directors are pleased to present the 2015 Remuneration Report which outlines the Board's approach to remuneration for Non-executive Directors, Executive Directors and other Key Management Personnel (KMP). The period reported on in this Remuneration Report is the period beginning on the date on which SurfStitch Group Limited was incorporated (i.e. 13 October 2014) and ending 30 on June 2015.

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

KEY MANAGEMENT PERSONNEL (KMP)

Justin Cameron
Executive Director
Managing Director and Chief Executive Officer

Lex Pedersen
Executive Director
Managing Director and President SWELL (USA)

Justin Stone
Executive Director
Managing Director, Europe

Karen Birner
Group Executive
Group Chief Financial Officer and Company Secretary

Mark Storey
Group Executive
Group Chief Operating Officer

Howard McDonald
Non-Executive Director
Independent Non-Executive Chairman

Stephen Goddard
Non-Executive Director
Independent Non-Executive Director

Jane Huxley
Non-Executive Director
Independent Non-Executive Director

Justin Cameron, Lex Pedersen, Mark Storey and Karen Birner have held their respective positions since the date of incorporation (13 October 2014), while Justin Stone was appointed on 16 December 2014. The appointment dates of each Non-executive Director are set out on page 28.

REMUNERATION GOVERNANCE

Remuneration and Nomination Committee (RNC)

SurfStitch has established a RNC comprised of three independent Non-Executive Directors:

COMMITTEE MEMBER	DATE APPOINTED
H McDonald (Chair)	13 October 2014
S Goddard	11 November 2014
J Huxley	12 June 2015

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.

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

Use of Remuneration Consultants

The RNC can engage remuneration consultants to provide it with 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.

During the year, the RNC sought advice from KPMG. KPMG provided advice on Executive remuneration benchmarking and reporting, including current market practices. KPMG did not provide "remuneration recommendations" for the purposes of the Corporations Act.

Associated Policies

The Group has established a number of policies to support a strong governance framework, including a Disclosure Policy and Securities Dealing Policy. These policies and procedures have been implemented to uphold ethical behaviour and responsible decision making. Further information on the Group's policies is available at www.surfstitchgroup.com/investors/downloads/.

PRE-IPO ARRANGEMENTS

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 Prospectus. An outline of the key pre-IPO incentive arrangements that vested at the time of Listing has been included for transparency below.

It is noted that a new remuneration framework has been implemented since Listing (details of the new remuneration framework are included on page 35). The new remuneration framework applies to all Executive KMP from the date of Listing.

Pre-IPO Equity Incentives

Justin Cameron, Lex Pedersen and Justin Stone participated in an incentive plan under which they acquired Restricted Shares in SurfStitch prior to Listing. These Restricted Shares were subject to additional escrow requirements as part of the IPO arrangements as follows:

a. First 50% - released following publication of the Groups audited financial accounts for FY2015; and

b. Final 50% - released six months following publication of the audited financial accounts for FY2015.

Other KMP were also given the opportunity to receive shares in the Group:

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

Offer Bonus

Justin Cameron and Lex Pedersen each received a one-off cash bonus of $730,195 in recognition of their contribution to the performance of the Group over a number of years which resulted in its successful Listing. These bonuses were disclosed in the Prospectus and paid in January 2015.

SUMMARY OF LEGACY AWARDS

PARTICIPANT	IPO CASH BONUS	NUMBER OF SHARES	FACE VALUE OF SHARES
Justin Cameron	$730,195	800,000 [1]	$800,000
Lex Pedersen	$730,195	800,000 [1]	$800,000
Justin Stone	-	200,000 [2]	$200,000
Mark Storey	-	800,000 [3]	$800,000
Karen Birner	-	16,667 [4]	$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 are subject to escrow requirements as outlined on page 33.

2 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. The shares are subject to escrow requirements as outlined on page 33.

3 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.

4 Karen Birner was granted 50,000 Performance Rights prior to Listing (see page 33). 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.

REMUNERATION REPORT
CONTINUED

EXECUTIVE REMUNERATION POST-IPO

Remuneration Framework

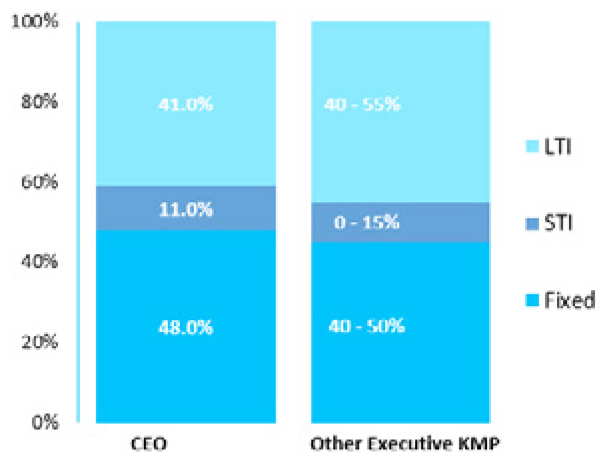
Appropriate remuneration of Executives is a key element to the success of the Group. The RNC established a remuneration framework that has been applied since Listing based on the core principles listed below. The framework enables the Group to recruit, motivate and retain a high calibre of talent that will deliver on our growth strategy.

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 contributions 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.

The Group's mix of fixed and "at risk" components for the KMP for FY2015, expressed as a percentage of total target reward, was as follows.



* Karen Birner did not participate in SurfStitch's FY2015 LTI plan.

REMUNERATION COMPONENTS

Fixed Annual Reward

Fixed annual reward (FAR) includes base salary, superannuation and other non-cash benefits.

SurfStitch's objective is to retain key talent and remain competitive in the market, having regard to a selected comparator group. The comparator group comprises a number of ASX300 companies with specific regard for companies in the retail sector and companies with a large on-line sales presence. The market capitalisation, geographies and revenue of companies is also considered.

Short Term Incentive (STI) Plan

A summary of the Executive STI plan in effect during FY2015 is provided below:

Objective	To drive individual and group performance to achieve financial and strategic targets.
Participation	Justin Cameron, Lex Pedersen and Justin Stone. No other members of the KMP were eligible to receive an STI award.
Performance Period	Financial year ending 30 June 2015.
Target STI	Target opportunity is 25% of annual base salary.
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	See table below. These performance measures were identified by the RNC as the most appropriate for FY2015 in achieving the strategic objectives of the Group
Claw back	The Board retains the discretion to withhold payment of the STI (or any future STI) where there is a risk of unintended award outcomes.
Deferral component	There is no deferral component in the current plan.
Termination	Participants must be employed and not under notice of resignation or termination at the completion of the performance period to be eligible for an STI award. The Board retains discretion to pro-rate payment in the case of good leavers.

MEASURE	WEIGHTING
Pro forma Revenue	35%
Pro forma EBITDA	35%
Timely execution of strategic objectives	30%

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

REMUNERATION REPORT
CONTINUED

STI Plan Outcomes

A key principle of the remuneration framework is to ensure reward is clearly linked to performance. The STI plan performance hurdles for FY2015 were aligned to the delivery of the financial and non-financial targets listed.

Following assessment of each of the key short-term targets, the RNC determined that each of these targets was met for FY2015, resulting in the STI vesting at target for each member of KMP participating in the STI plan. Performance against the targets was as follows:

MEASURE	TARGET	RESULT [UNAUDITED]
Pro forma Revenue	$199.1 million	$199.4 million
Pro forma EBITDA	$5.1 million	$7.7 million
Timely execution of strategic objectives	Fulfilment of content strategy	Achieved. Content marketing strategy accelerated via the synergist acquisitions of Magicseaweed [MSW] and Stab Magazine [Stab]. Together, these acquisitions add 2.75 million unique monthly visitors to the SurfStitch group of global platforms. The merging of MSW, Stab and SurfStitch represents a digital ecosystem capable of capturing and influencing customers at all points of the surf and action sports lifestyle cycle.
	Integration of global platform	On target, with phase 1 completed. All retail platforms have completed integration of VRP e-Commerce technology, and are live in production for cross regional sales and distribution.

On 11 August 2015 Justin Cameron, Lex Pedersen and Justin Stone informed the RNC that they wished to forego their FY2015 STI award, despite target performance being met. This decision was made because, although the Group has performed well as a result of Listing and performance since that date, the Executives felt that they had already been adequately compensated in the Listing process. This decision is reflected in the 'forfeited' column in the table below.

SHORT-TERM INCENTIVE BONUS

KMP	TARGET STI OPPORTUNITY	% EARNED IN FY2015	% PAID	% FORFEITED
Justin Cameron	$100,000	100%	0%	100%
Lex Pedersen	$130,000[1]	100%	0%	100%
Justin Stone	$87,500[1]	100%	0%	100%

1 Target short term incentive opportunity for Lex Pedersen and Justin Stone are both listed in AUD. The amounts have been converted using exchange rates of AUD 1.30: USD 1.00, and AUD 2.0: GBP 1.00.

2 Mark Storey and Karen Birner did not participate in the FY2015 STI plan.

Long-Term Incentive [LTI] Plans

The Group currently has in place two LTI plans: an Equity Incentive Plan [EIP], under which participants are granted Performance Rights, and a Loan Share Plan, under which participants are provided with loans, which must be used to fund the acquisition of SurfStitch shares [Loan Plan].

Justin Cameron and Lex Pedersen participated in the Loan Plan as they were both considered substantial shareholders of the Group at the time the grant was made and as a result, and unlike other executives, would not be able to participate in the Rights Plan in a financially effective way. The changes to the taxation of employee share schemes that became effective from 1 July 2015 should enable Justin Cameron and Lex Pedersen to participate in future EIP's on the same basis as other participants.

The table below explains the key features of the LTI plans offered to KMP during FY2015.

<table>
<tr><th>PLAN TYPE</th><th>EIP</th><th>LOAN PLAN</th></tr>
<tr><td>Objectives</td><td colspan="2">To align the KMPs reward with the successful achievement of sustainable long-term value creation and success of the Group.</td></tr>
<tr><td>Participation</td><td>Mark Storey and Justin Stone</td><td>Justin Cameron and Lex Pedersen.</td></tr>
<tr><td>Instrument</td><td>Performance Rights, issued at nil consideration. Vesting will occur on satisfaction of performance and service conditions.

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.</td><td>Participants are 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.

On each vesting date, provided the vesting conditions have been satisfied, a portion of the loan balance is forgiven to reflect the achievement of the relevant performance and service conditions. Any outstanding loan balance must be repaid at the end of the loan period (which may be satisfied by the forfeiture of the unvested Loan Shares).</td></tr>
<tr><td>FY2015 grant</td><td>Rights awarded in respect of FY2015 have grant dates of 26 November 2014 (for Mark Storey) and 16 December 2015 (for Justin Stone).

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

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

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

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

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

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

To the extent that the TSR performance condition has been met, vesting will occur as follows, provided that the participant remains employed by the Group at the relevant vesting date:
• 31 December 2017 vesting date – up to 60% of the Rights vest / up to 60% of Loan Shares vest / outstanding loan forgiven;
• 31 December 2018 vesting date – a further 20% of the Rights / a further 20% of the Loan Shares vest / outstanding loan forgiven; and
• 31 December 2019 vesting date – the final 20% of the Rights vest / the final 20% of the Loan Shares vest / outstanding loan forgiven.

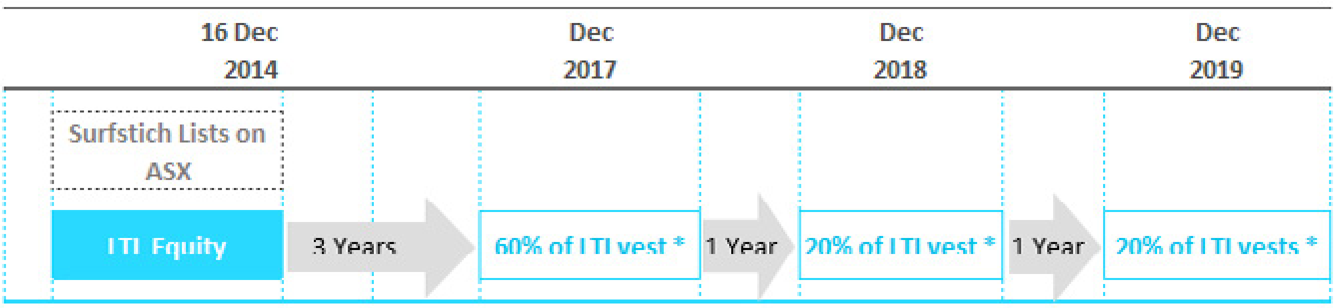
Any Rights in a particular tranche that remain unvested following a relevant test date will lapse immediately. Any Loan Shares that do not vest will be forfeited in full satisfaction of the associated portion of the outstanding loan.</td></tr>
</table>

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

Other LTI Arrangement

As noted on page 33, Karen Birner was also awarded Performance Rights under a pre-IPO incentive plan, for which one fully paid ordinary share in SurfStitch will be allocated in respect of each Performance Right that vests. One-third of the Performance Rights vested upon successful Listing and Karen Birner was allocated shares on vesting of these Performance Rights. The remaining two thirds will vest in December 2017, subject to Karen Birner's continued employment.

LTI Plan Vesting Horizon



* subject to achieving performance measures and meeting service condition

GROUP PERFORMANCE IN FY2015

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

SHARE PERFORMANCE				EARNINGS PERFORMANCE (UNAUDITED)	
Closing Share Price	Dividends Per Share	TSR	EPS	Revenue	EBITDA
$1.83[1]	NIL	83%	($0.09) [2]	$199.4 million	$7.7 million

1 The share price on Listing was $1.00

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

REMUNERATION REVIEW

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

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

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

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

The key outcomes of this review are:

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

Justin Cameron – Remuneration FY2015 and FY2016

	FAR	STI TARGET [1]	STI STRETCH [1]	LTI [1]
FY2015	448,000	25%	NA	100%
FY2016	650,000	25%	50%	100%

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

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

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

OTHER TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

Provision of Information Technology Services

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

Other Transactions with Related Parties

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

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

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

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

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

EXECUTIVE REMUNERATION DISCLOSURES

Statutory Remuneration Table

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

	SHORT TERM			POST EMPLOYMENT	SHARE BASED PAYMENTS (vi)		TOTAL	
KMP	BASE SALARY & BENEFITS	CASH BONUS (iv)	NON-CASH BENEFITS (viii)	SUPER-ANNUATION	LOAN SHARES (v)	PERFORMANCE RIGHTS	TOTAL	PERFORMANCE RELATED %
Justin Cameron	220,000	730,195	4,523	11,291	41,545	-	1,007,554	77%
Lex Pedersen (i)	280,000	730,195	133,085	4,696	41,545	-	1,189,521	65%
Justin Stone (ii)	183,077	-	-	-	-	38,310 (ix)	221,387	17%
Karen Birner	110,385	-	-	9,360	-	23,118 (x)	142,863	16%
Mark Storey (iii)	194,923	-	-	-	-	41,545 (ix)	236,468	18%

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

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

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

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

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

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

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

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

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

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

MOVEMENTS IN SHAREHOLDINGS OF KMP

Executive

	HELD AT 13-OCT 2014	ACQUIRED UPON LISTING	GRANTED AS REMUNERATION	RECEIVED ON VESTING OF RIGHTS	NET CHANGE OTHER	HELD AT 30-JUN 2015	VESTED AND HELD IN ESCROW	RELEASE FROM ESCROW
Justin Cameron	1	11,731,089	800,000[3]	-	-	12,531,090	12,531,090	-
Lex Pedersen	1	9,466,134	800,000[3]	-	-	10,266,135	10,266,135	-
Justin Stone	-	11,225,983	200,000[3]	-	-	11,425,983	200,000	-
Karen Birner	-	40,000	-	16,667[3]	-	56,667	-	-
Mark Storey	-	-	800,000[3]	-	(500,000)[1]	300,000	-	-

Non-executive

	HELD AT 13-OCT 2014	ACQUIRED UPON LISTING	GRANTED AS REMUNERATION	RECEIVED ON VESTING OF RIGHTS	NET CHANGE OTHER	HELD AT 30-JUN 2015	VESTED AND HELD IN ESCROW	RELEASE FROM ESCROW
Howard McDonald	-	1,500,000	-		10,000[2]	1,510,000	750,000	750,000
Stephen Goddard	-	200,000	-		10,000[2]	210,000	100,000	100,000
Jane Huxley	-	-	-		-	-	-	-

1 Sale of shares on open market

2 Purchase of shares under the May 2015 Share Purchase Plan

3 Performance Rights vested on Listing

MOVEMENTS IN PERFORMANCE RIGHTS HOLDINGS OF KMP

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

Executive

	HELD AT 13 OCTOBER 2014	GRANTED	VALUE OF RIGHTS GRANTED	VESTED	CANCELLED	FORFEITED	HELD AT 30 JUNE 2015
Justin Stone	-	400,000	249,312	-	-	-	400,000
Karen Birner	-	50,000	249,312	(16,667)	-	-	33,333
Mark Storey	-	400,000	249,312	-	-	-	400,000

MOVEMENTS IN LOAN SHARE HOLDINGS OF KMP

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

Executive

	GRANT DATE	GRANTED DURING FY2015	VESTED	OUTSTANDING AT YEAR END	VALUE OF LOAN SHARES AT GRANT DATE ($)	VALUE OF LOAN SHARES INCLUDED IN COMPENSATION FOR THE YEAR
Justin Cameron	26 November 2014	400,000	-	400,000	249,312	41,545
Lex Pedersen	26 November 2014	400,000	-	400,000	249,312	41,545

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

MOVEMENTS IN LOANS HELD BY KMP

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

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

	OPENING BALANCE	ADVANCES DURING FY15 [1]	OTHER REPAYMENTS DURING FY15	CASH REPAYMENTS DURING FY15	CLOSING BALANCE	HIGHEST INDEBTEDNESS
Justin Cameron	-	$380,000	-	-	$380,000	$380,000
Lex Pedersen	-	$380,000	-	-	$380,000	$380,000

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

KEY TERMS OF EXECUTIVE CONTRACTS

(AUD)	FIXED ANNUAL REMUNERATION [i]	TERM	EXECUTIVE NOTICE PERIOD	COMPANY NOTICE PERIOD [ii]	TERMINATION PAYMENT
Managing Directors					
Justin Cameron	$448,000 [iii]	Initial term of 2 years, ending Dec-16	No termination during initial term; 3 months in subsequent periods	No termination during initial term; 3 months in subsequent periods if performance-based	Subject to the termination benefits cap under Corporations Act.
Lex Pedersen	USD400,000 [iv]	Initial term of 2 years, ending Dec-16	3 months	3 months	Base salary to end of initial period
Justin Stone	GBP175,000	Initial term of 2 years, ending Dec-16	No termination during initial term; 3 months in subsequent periods	No termination during initial term; 3 months in subsequent periods if performance-based	Subject to the termination benefits cap under Corporations Act.
Group Executives					
Karen Birner	$242,000 [v]	Ongoing	3 months	3 months	Notice period
Mark Storey	$362,000 [vi]	Expired 30 June 2015	N/A	N/A	N/A

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

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

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

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

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

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

NON-EXECUTIVE DIRECTOR REMUNERATION

Overview of Policy

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

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

Fee Pool

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

Remuneration Reviews

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

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

2015 Non-Executive Director Fees

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

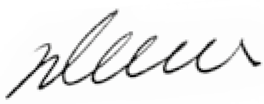
FEE APPLICABLE FOR 2015	CHAIR	MEMBER
Board	$100,000	$75,000
Audit, Risk and Compliance Committee	Nil	Nil
Remuneration and Nomination Committee	Nil	Nil
Superannuation	Included in above amounts	
Other	Reimbursement of travel and other expenses necessarily incurred in exercising their duties.	

STATUTORY REMUNERATION TABLE

	SHORT TERM		POST EMPLOYMENT	TOTAL	
	BASE SALARY & BENEFITS	NON-CASH BENEFITS	SUPERANNUA-TION	TOTAL	PERFORMANCE RELATED %
Howard McDonald	65,708	-	6,242	71,950	0%
Stephen Goddard	42,564	-	4,044	46,608	0%
Jane Huxley	3,003	-	285	3,288	0%

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

Signed on behalf of the Directors.



Howard McDonald
Chairman

Sydney
26 August 2015

DIRECTORS' DECLARATION

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

    (a) the consolidated financial statements and notes that are set out on pages 50 to 96 and the Remuneration report on pages 31-44 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

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

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

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

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

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

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

Signed on behalf of the Directors.

Howard McDonald
Chairman

Sydney
26 August 2015

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SURFSTITCH GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

INDEPENDENCE

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

Independent auditor's report to the members of SurfStitch Group Limited
Liability limited by a scheme approved under Professional Standards Legislation.

AUDITOR'S OPINION

In our opinion:

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

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

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

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

Report on the remuneration report

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

Auditor's opinion

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

KPMG

Julie Cleary
Partner

Sydney
26 August 2015

LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

To: the directors of SurfStitch Group Limited

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

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

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

KPMG

Julie Cleary
Partner

Sydney
26 August 2015

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

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE PERIOD FROM 13 OCTOBER 2014 TO 30 JUNE 2015

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 13 OCTOBER 2014 TO 30 JUNE 2015

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 13 OCTOBER 2014 TO 30 JUNE 2015

	ATTRIBUTABLE TO OWNERS OF THE COMPANY						
IN THOUSANDS OF DOLLARS	SHARE CAPITAL	COST OF SHARE CAPITAL	SHARE-BASED PAYMENTS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	OTHER EQUITY RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 13 October 2014	-	-	-	-	-	-	-
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(47,277)	(47,277)
Total other comprehensive income for the period	-	-	-	2,587	-	-	2,587
Total comprehensive loss for the period	**-**	**-**	**-**	**2,587**	**-**	**(47,277)**	**(44,690)**
Transactions with owners recorded directly in equity							
Issue of ordinary shares, net of transaction costs	252,724	(4,399)	-	-	-	-	248,325
Common control acquisition	-	-	-	-	(67,510)	-	(67,510)
Share based payments	-	-	1,390	-	-	-	1,390
Total transactions with owners recorded directly in equity	**252,724**	**(4,399)**	**1,390**	**-**	**(67,510)**	**-**	**182,205**
Balance at 30 June 2015	**252,724**	**(4,399)**	**1,390**	**2,587**	**(67,510)**	**(47,277)**	**137,515**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 13 OCTOBER 2014 TO 30 JUNE 2015

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM OCTOBER 2014 TO 30 JUNE 2015

1. REPORTING ENTITY

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

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

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

2. BASIS OF ACCOUNTING

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Business combinations

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

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

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign operations

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

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

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

(c) Share-based payment transactions

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

(d) Revenue recognition

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

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

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

Revenue is recognised as follows:

(i) Sale of goods – retail

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

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

(ii) Advertising revenue

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

(e) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Tax consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) Leases

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

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

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are assessed at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or business of assets cash generating unit (CGU).

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(j) Inventories

(i) Finished goods

Finished goods are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated selling costs.

(k) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

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

(l) Intangible assets and goodwill

(i) Goodwill

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

(ii) Trademarks and licenses

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

(iii) Information technology (IT) development and software

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

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

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the business prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(n) Provisions

Provisions for legal claims and make good obligations are recognised when the business has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required at settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(o) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long-term obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period.

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

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

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The business recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Defined contribution plans

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

(p) Contributed equity and other equity reserve

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

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

Revenues, expenses and assets are recognised net of the amount of respective GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant taxation authority. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST or VAT receivable or payable. The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

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

(r) Functional and presentation currency and rounding

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

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

(s) Discontinued operations

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

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

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

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

(t) Use of judgements and estimates

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

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

(i) Judgements

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

(ii) Estimates

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

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

(iii) Measurement of fair values

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

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

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

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

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

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

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

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

(u) Basis of measurement

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

(v) New standards and interpretations not yet adopted

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

(i) AASB 9 Financial instruments

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

(ii) AASB 15 Revenue from contracts with customers

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

4. OPERATING SEGMENTS

(a) Basis for segmentation

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

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

(b) Information about reportable segments

Information related to each reportable segment is set out below.

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

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

	2015			
IN THOUSANDS OF DOLLARS	ASIA-PACIFIC	EUROPE [1]	NORTH AMERICA	TOTAL
External revenue	42,602	43,795	15,625	102,022
Intersegment revenue	-	449	-	449
Total segment revenue	**42,602**	**44,244**	**15,625**	**102,471**
Segment gross profit	**16,462**	**12,100**	**5,951**	**34,513**
Depreciation & amortisation	(1,047)	(2,186)	(309)	(3,542)
Impairment expense [2]	-	(19,702)	-	(19,702)
Segment assets	50,215	71,774	24,669	146,658
Segment liabilities	(13,253)	(35,309)	(25,833)	(74,395)
Segment net assets	**36,962**	**36,465**	**(1,164)**	**72,263**

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

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

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

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

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

Corporate activities are not allocated to operating segments.

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

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

(1) Predominantly represents related party loans with corporate entities.

(d) Geographical information

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

	2015		
IN THOUSANDS OF DOLLARS	REVENUE	NON-CURRENT ASSETS	CAPITAL ADDITIONS
Australia	42,603	73,021	6,812
All foreign countries			
United States of America	15,625	12,397	1,464
United Kingdom	39,629	5,372	5,202
France (discontinued)	4,165	46	2,812
Total	**102,022**	**90,836**	**16,290**

(e) Major customers

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

5. INTERNAL RESTRUCTURE AND ACQUISITION OF SUBSIDIARIES

(a) Internal restructure

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

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

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

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

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

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

(i) Consideration transferred

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

IN THOUSANDS OF DOLLARS	2015
Cash	37,492
Equity instruments	112,717
Replacement share-based payment awards	3,505
Total consideration transferred	**153,714**

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

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

(ii) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

IN THOUSANDS OF DOLLARS	2015
Identifiable assets	
Cash and cash equivalents	14,947
Trade and other receivables	7,252
Inventories	25,485
Other assets	2,225
Deferred tax assets	890
Property, plant and equipment	2,507
Intangible assets	6,675
Goodwill *	53,716
Total identifiable assets acquired	**113,697**
Identifiable liabilities	
Trade and other payables	23,675
Deferred income	265
Employee benefits	1,930
Income tax provision	989
Provisions	634
Total identifiable liabilities assumed	**27,493**
Net identifiable assets assumed	**86,204**

The above values represent the book value of SHPL's assets and liabilities at 15 December 2014.

*The goodwill arose on SHPL's acquisition of SurfStitch Pty Limited, SurfStitch Europe Pty Limited and SurfStitch USA, Inc. on 5 September 2014. It is attributable mainly to the skills and technical talent of SurfStitch's management and work force and the synergies expected to be achieved from integrating the surf and fashion clothing and accessories retailing business into a single Group that has a global presence. None of the goodwill recognised is expected to be deductible for tax purposes.

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

(b) Acquisition of Surfdome Shop Limited

On 16 December 2014, the Group acquired 100% of the shares and voting interests in Surfdome Shop Limited (Surfdome). Taking control of Surfdome will enable the Group to achieve expected synergies from integrating the surf and fashion clothing and accessories retailing business and access to the European customer base.

During the period since acquisition from 16 December 2014 to 30 June 2015, Surfdome contributed revenue of $39,111,000 and a loss of $3,321,000 to the Group's results. Had the results of Surfdome been included from the beginning of the financial period being 13 October 2014, Surfdome would have contributed revenue of $59,887,000 and a loss of $3,029,000 to the Group's results.

5. INTERNAL RESTRUCTURE AND ACQUISITION OF SUBSIDIARIES CONTINUED

(i) Consideration transferred

The acquisition-date fair value of the consideration transferred comprised cash of $32,631,000 and equity instruments in SGL of $14,315,000. The fair value of the ordinary shares issued was based on the listed share price of the Company at 16 December 2014 of $1 per share.

IN THOUSANDS OF DOLLARS	2015
Cash	32,631
Equity instruments	14,315
Total consideration transferred	**46,946**

(ii) Identifiable assets required and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

IN THOUSANDS OF DOLLARS	2015
Identifiable assets	
Cash and cash equivalents	6,799
Trade and other receivables	818
Inventories	21,639
Other assets	324
Deferred tax assets	566
Property, plant and equipment	1,033
Intangible assets	2,600
Total identifiable assets acquired	**33,779**
Identifiable liabilities	
Trade and other payables	16,317
Employee benefits	247
Provisions	826
Total identifiable liabilities assumed	**17,390**
Net identifiable assets assumed	**16,389**

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 Surfdome 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.

(iii) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

IN THOUSANDS OF DOLLARS	2015
Consideration transferred	46,946
Fair value of identifiable net assets	(16,389)
Goodwill	**30,557**

The goodwill is attributable mainly to the synergies expected to be achieved from integrating Surfdome into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

(iv) Acquisition costs

Acquisition costs of $675,000 were expensed in the statement of profit and loss in the period in relation to acquisition of Surfdome.

(c) Acquisition of Magicseaweed Limited

The Group acquired 100% of the share capital in Magicseaweed Limited and its controlled entities (Magicseaweed) on 22 May 2015 for cash consideration of $8,507,000. Taking control of Magicseaweed will enable the Group to materially advance its strategy to become a destination site for customers to connect with everything action sports related. Magicseaweed brings to the Group a large, key surf audience which will reduce the Group's reliance on external marketing channels and provide significant cross-promotional opportunities.

During the period since acquisition from 22 May 2015 to 30 June 2015, Magicseaweed contributed revenue of $519,000 and a profit of $76,000 to the Group's results. Had the results of Magicseaweed been included from the beginning of the financial period being 13 October 2014, Magicseaweed would have contributed revenue of $3,771,000 and a profit of $474,000 to the Group's results.

(i) Consideration transferred

The acquisition-date fair value of the consideration transferred comprised cash of $8,507,000.

(ii) Identifiable assets required and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

IN THOUSANDS OF DOLLARS	2015
Identifiable assets	
Cash and cash equivalents	494
Trade and other receivables	66
Inventories	1,379
Property, plant and equipment	87
Total identifiable assets acquired	**2,026**
Identifiable liabilities	
Trade and other payables	499
Deferred tax liabilities	17
Total identifiable liabilities assumed	**516**
Net identifiable assets assumed	**1,510**

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 Magicseaweed 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.

(iii) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

IN THOUSANDS OF DOLLARS	NOTE	2015
Consideration transferred		8,507
Fair value of identifiable net assets		(1,510)
Goodwill		**6,997**

The goodwill is attributable mainly to the synergies expected to be achieved from integrating Magicseaweed into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

5. INTERNAL RESTRUCTURE AND ACQUISITION OF SUBSIDIARIES CONTINUED

(iv) Acquisition costs

Acquisition costs of $709,000 were expensed in the statement of profit and loss in the period in relation to acquisition of Magicseaweed.

(d) Acquisition of Rollingyouth Pty Limited

The Group acquired 100% of the share capital in Rollingyouth Pty Ltd (Rollingyouth) on 22 May 2015 for cash consideration of $2,263,000. Taking control of Rollingyouth will enable the Group to materially advance its strategy to become a destination site for customers to connect with everything action sports related. Rollingyouth is the world's leading online surf publishing and content provider and brings to the Group a highly engaged subscriber base which will reduce the Group's reliance on external marketing channels and provide significant cross-promotional opportunities.

During the period since acquisition from 22 May 2015 to 30 June 2015, Rollingyouth contributed revenue of $183,000 and a profit of $1,000 to the Group's results. Had the results of Rollingyouth been included from the beginning of the financial period being 13 October 2014, Rollingyouth would have contributed revenue of $1,479,000 and a profit of $212,000 to the Group's results.

(i) Consideration transferred

The acquisition-date fair value of the consideration transferred comprised cash of $2,263,000.

(ii) Identifiable assets required and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

IN THOUSANDS OF DOLLARS	2015
Identifiable assets	
Cash and cash equivalents	20
Trade and other receivables	662
Other assets	23
Property, plant and equipment	69
Total identifiable assets acquired	**774**
Identifiable liabilities	
Trade and other payables	421
Employee benefits	70
Total identifiable liabilities assumed	**491**
Net identifiable assets assumed	**283**

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 Rollingyouth'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.

(iii) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

IN THOUSANDS OF DOLLARS	2015
Consideration transferred	2,263
Fair value of identifiable net assets	(283)
Goodwill	**1,980**

The goodwill is attributable mainly to the synergies expected to be achieved from integrating Rollingyouth into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

(iv) Acquisition costs

Acquisition costs of $90,000 were expensed in the statement of profit or loss in the period in relation to acquisition of Rollingyouth.

6. DISCONTINUED OPERATION

The Group ceased operations of the SurfStitch Europe operating segment including its website and related business in April 2015, and it is considered a discontinued operation.

SurfStitch Europe was not previously classified as held-for-sale or as a discontinued operation.

(a) Results of discontinued operation

IN THOUSANDS OF DOLLARS	NOTE	2015
Revenue		4,165
Expenses		(17,492)
Impairment expense		(19,702)
Loss from operating activities before tax		**(33,029)**
Income tax		-
Loss from operating activities after tax		**(33,029)**
Basic earnings/(loss) per share (dollars)	9	(0.20)
Diluted earnings/(loss) per share (dollars)	9	(0.20)

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

(b) Cash flows used in discontinued operation

IN THOUSANDS OF DOLLARS	2015
Net cash used in operating activities	(12,393)
Net cash flows for the period	**(12,393)**

7. REVENUE

	2015		
IN THOUSANDS OF DOLLARS	CONTINUING OPERATIONS	DISCONTINUED OPERATION (SEE NOTE 6)	TOTAL
Sale of goods	97,857	4,165	102,022
Total revenue	97,857	4,165	102,022

8. EXPENSES

(a) Other expenses

IN THOUSANDS OF DOLLARS	2015
IPO related expenditure	6,571
Total other expense	**6,571**

8. EXPENSES CONTINUED

(b) Expenses by nature

IN THOUSANDS OF DOLLARS	NOTE	2015
Advertising & promotion		8,880
Amortisation	18(a)	2,032
Depreciation	17(a)	575
Distribution costs		10,070
Employee entitlements	12	18,286
Rent	24	1,936
Transaction fees		3,183
Website costs		2,221
Other expenses		8,125
Total selling and distribution, administrative and other expenses		**55,308**

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.

(a) Loss attributable to ordinary shareholders (basic and diluted)

	2015		
In thousands of dollars	Continuing operations	Discontinued operation	Total
Loss for the period, attributable to the owners of the Company	(14,248)	(33,029)	(47,277)

(b) Weighted-average number of ordinary shares (basic and diluted)

In number of shares	*Note*	2015
Issued ordinary shares at 13 October 2014	*19 (a)*	2
Effect of shares issued for cash as part of IPO	*19 (a)*	83,192,359
Effect of shares issued as consideration for purchase of SHPL and SDUK	*19 (a)*	127,031,327
Effect of shares issued for no consideration of purchase of SHPL		3,400,000
Effect of other shares issued for cash	*19 (a)*	28,333,499
Effect of shares issued under share-payment arrangements	*19 (a)*	518,781
Total number of ordinary shares at 30 June 2015		**242,475,968**
Weighted average number of ordinary shares at 30 June 2015		**166,152,044**

(c) Earnings per share (basic and diluted)

	2015		
	Continuing operations	Discontinued operation	Total
Basic earnings per share (dollars)	(0.09)	(0.20)	(0.29)
Diluted earnings per share (dollars)	(0.09)	(0.20)	(0.29)

10. SHARE-BASED PAYMENT ARRANGEMENTS

At 30 June 2015, the Group had the following share-based payment arrangements:

(a) 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.

(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 - Tranche 1	31-Dec-17
Vesting percentage - Tranche 1	60%
Vesting date - Tranche 2	31-Dec-18
Vesting percentage - Tranche 2	20%
Vesting date - Tranche 3	31-Dec-19
Vesting percentage - Tranche 3	20%
Service condition *	Yes
Performance condition +	TSR
Expense recognised in period based on grant date fair value	$83,089
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.

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

(ii) Loan shares on issue

The number of loan shares on issue during the period is illustrated below:

	Number of shares
Outstanding at 13 October 2014	-
Granted during the period	800,000
Outstanding at 30 June 2015	**800,000**

10. SHARE-BASED PAYMENT ARRANGEMENTS 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 of the equity-settled share-based payment for loan shares are as follows:

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

(b) Employee gift offer

As part of the IPO process, 89 Group employees were each issued 1,000 shares in SGL for nil consideration under the employee gift offer. The terms of the offer are as follows:

Grant date	15-Dec-14
Vesting date	15-Dec-14
Service condition *	Yes
Performance condition	No
Expense recognised in period based on grant date fair value	$89,000
Equity instrument rights	89,000

* Must have been a permanent full-time employee of SGL or a Group company for at least six months at 5pm AEDT on 26 November 2014 to be eligible.

(c) 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	Grant 2	Grant 3	Grant 4	Grant 5	Grant 6
Grant date	26-Nov-14	26-Nov-14	16-Dec-14	18-Mar-15	23-Jun-15	23-Jun-15
Vesting date - Tranche 1	31-Dec-17	16-Dec-14	31-Dec-17	18-Mar-15	22-Dec-15	23-Jun-15
Vesting percentage - Tranche 1	60%	33%	60%	33%	33%	33%
Vesting date - Tranche 2	31-Dec-18	16-Dec-17	31-Dec-18	16-Dec-17	22-Dec-16	31-Dec-17
Vesting percentage - Tranche 2	20%	67%	20%	67%	33%	67%
Vesting date - Tranche 3	31-Dec-19	-	31-Dec-19	-	22-Dec-17	-
Vesting percentage - Tranche 3	20%	-	20%	-	33%	-
Service condition *	Yes	Yes	Yes	Yes	Yes	Yes
Performance condition +	TSR	No	TSR	No	No	No
Expense recognised in period based on grant date fair value	$41,545	$516,164	$64,169	$5,260	$527	$67,577
Equity instrument rights	400,000	1,192,142	670,000	9,372	15,231	112,830

* 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) Performance rights on issue

The number of performance rights on issue during the period is illustrated below:

	Grant 1	Grant 2	Grant 3	Grant 4	Grant 5	Grant 6
Outstanding at 13 October 2014	-	-	-	-	-	-
Granted during the period – Tranche 1	240,000	397,381	402,000	3,124	5,077	37,610
Granted during the period – Tranche 2	80,000	794,761	134,000	6,248	5,077	75,220
Granted during the period – Tranche 3	80,000	-	134,000	-	5,077	-
Forfeited during the period	-	(146,262)	-	-	-	-
Exercised during the period	-	(389,047)	-	(3,124)	-	(37,610)
Expired during the period	-	-	-	-	-	-
Outstanding at 30 June 2015	**400,000**	**656,833**	**670,000**	**6,248**	**15,231**	**75,220**

10. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

(c) Performance rights (continued)

(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 of the equity-settled share-based payment for performance rights are as follows:

	Grant 1	Grant 2	Grant 3	Grant 4	Grant 5	Grant 6
Grant date	26-Nov-14	26-Nov-14	16-Dec-14	18-Mar-15	23-Jun-15	23-Jun-15
Fair value at grant date - Tranche 1	$0.62	$1.00	$0.62	$1.39	$1.77	$1.77
Fair value at grant date - Tranche 2	$0.62	$1.00	$0.62	$1.39	$1.77	$1.77
Fair value at grant date - Tranche 3	$0.63	-	$0.63	-	$1.77	-
Share price at grant date	$1.00	$1.00	$1.00	$1.39	$1.77	$1.77
Expected volatility (weighted average)	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	2.85%	2.73%	2.85%	2.22%	2.29%	2.19%
Vesting period - Tranche 1	3 years	1 month	3 years	Nil	6 months	Nil
Vesting period - Tranche 2	4 years	3 years	4 years	3 years	2 years	3 years
Vesting period - Tranche 3	5 years	N/a	5 years	N/a	3 years	N/a

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.

(d) Equity-settled share-based payments awards pursuant to acquisition agreements of Magicseaweed Limited and Rollingyouth Pty Limited

(i) Magicseaweed Limited

As part of the acquisition of Magicseaweed Limited on 22 May 2015, 2,298,846 shares were granted to key employees in that business. These shares will vest and be issued on completion of the required service period.

Grant date	22-May-15
Vesting date - Tranche 1	22-May-16
Vesting percentage - Tranche 1	33.33%
Vesting date - Tranche 2	22-May-17
Vesting percentage - Tranche 2	33.33%
Vesting date - Tranche 3	22-May-18
Vesting percentage - Tranche 3	33.34%
Service condition *	Yes
Performance condition +	No
Expense recognised in period based on grant date fair value	$253,524
Equity instrument rights	2,298,846

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.

The number of shares on issue during the period is illustrated below:

	Number of shares
Outstanding at 13 October 2014	-
Granted during the period – Tranche 1	766,282
Granted during the period – Tranche 2	766,282
Granted during the period – Tranche 3	766,282
Forfeited during the period	-
Exercised during the period	-
Expired during the period	-
Outstanding at 30 June 2015	**2,298,846**

(ii) Rollingyouth Pty Limited

As part of the acquisition of Rollingyouth Pty Limited on 22 May 2015, 2,439,360 shares were granted to key employees in that business. These shares will vest and be issued on completion of the required service period.

Grant date	22-May-15
Vesting date - Tranche 1	22-May-16
Vesting percentage - Tranche 1	33.34%
Vesting date - Tranche 2	22-May-17
Vesting percentage - Tranche 2	33.33%
Vesting date - Tranche 3	22-May-18
Vesting percentage - Tranche 3	33.33%
Service condition *	Yes
Performance condition +	No
Expense recognised in period based on grant date fair value	$269,020
Equity instrument rights	2,439,360

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.

The number of shares on issue during the period is illustrated below:

	Number of shares
Outstanding at 13 October 2014	-
Granted during the period – Tranche 1	813,120
Granted during the period – Tranche 2	813,120
Granted during the period – Tranche 3	813,120
Forfeited during the period	-
Exercised during the period	-
Expired during the period	-
Outstanding at 30 June 2015	**2,439,360**

11. OTHER EMPLOYEE BENEFITS

In thousands of dollars	Note	2015
Liability for annual leave		624
Liability for long service leave		180
Liability for bonuses [(1)]		603
Other benefits		298
Total employee benefits		**1,705**
Current		1,525
Non-current		180
Total employee benefits		**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.

12. EMPLOYEE BENEFIT EXPENSES

In thousands of dollars	Note	2015
Wages and salaries		15,933
Compulsory superannuation contributions		524
Termination benefits		228
Increase/(decrease) in liability for annual leave		222
Increase/(decrease) in liability for long service leave		(11)
Equity-settled share based payments	10	1,390
Total employee benefits expense		**18,286**

13. INCOME TAXES

(a) Amounts recognised in profit or loss

In thousands of dollars	Note	2015
Current tax expense		-
Deferred tax expense		(3,583)
Tax expense on continuing operations		**(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.

(b) Amounts recognised directly in equity

	2015		
In thousands of dollars	Before tax	Tax expense/ (benefit)	Net of tax
Capital raising costs	5,186	(787)	4,399
Total recognised directly in equity	**5,186**	**(787)**	**4,399**

(c) Reconciliation of effective tax rate

	2015 %	2015 $'000
Profit/(loss) before tax from continuing operations		**(17,831)**
Tax using the Company's domestic tax rate	30%	(5,349)
Effect of tax rates in foreign jurisdictions	10%	332
Non-deductible IPO costs	30%	656
Non-deductible acquisition costs	30%	740
Other non-deductible expenses	30%	249
Tax base uplift as a result of tax grouping	30%	(211)
Effective tax rate	**20%**	**(3,583)**

13. INCOME TAXES CONTINUED

(d) Movement in deferred tax balances

In thousands of dollars	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
Property, plant and equipment	-	136	-	(114)	22
Intangibles assets	-	98	-	(115)	(17)
Other assets	-	23	-	(23)	-
Employee benefits	-	105	-	332	437
Provisions	-	238	-	272	510
Tax losses	-	3,174	-	860	4,034
Capital raising costs	-	(191)	787	227	823
Net tax assets					**5,809**

14. CASH AND CASH EQUIVALENTS

In thousands of dollars	Note	2015
Bank balances		40,618
Call deposits		219
Total cash and cash equivalents		**40,837**

15. TRADE AND OTHER RECEIVABLES

In thousands of dollars	Note	2015
Trade receivables		1,633
Other receivables		347
Total trade and other receivables		**1,980**
Current		1,980
Non-current		-
Total trade and other receivables		**1,980**

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

16. INVENTORIES

In thousands of dollars	Note	2015
Finished goods		43,290
Total inventories		**43,290**

17. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

Cost

In thousands of dollars	Note	Plant & equipment	Leased plant & equipment	Total
Balance at 13 October 2014		-	-	-
Acquisitions through business combinations	5	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**

Accumulated depreciation and impairment losses

In thousands of dollars	Note	Plant & equipment	Leased plant & equipment	Total
Balance at 13 October 2014		-	-	-
Depreciation - continuing operations	8	432	143	575
Depreciation - discontinued operation		50	59	109
Impairments		-	-	-
Disposals		(94)	(59)	(153)
Effect of movements in exchange rates		-	-	-
Balance at 30 June 2015		**388**	**143**	**531**

Carrying amounts

In thousands of dollars	Plant & equipment	Leased plant & equipment	Total
Balance at 13 October 2014	**-**	**-**	**-**
Balance at 30 June 2015	**2,735**	**569**	**3,304**

18. INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amount

Cost

In thousands of dollars	Note	Goodwill	Other	Total
Balance at 13 October 2014		-	-	-
Acquisitions through business combinations	5	93,250	9,275	102,525
Additions		-	2,693	2,693
Disposals		-	(3,737)	(3,737)
Effect of movements in exchange rates		284	115	399
Balance at 30 June 2015		**93,534**	**8,346**	**101,880**

Accumulated amortisation and impairment losses

In thousands of dollars	Note	Goodwill	Other	Total
Balance at 13 October 2014		-	-	-
Amortisation - continuing operations	8	-	2,032	2,032
Amortisation - discontinued operation		-	826	826
Impairments		19,702	-	19,702
Disposals		-	(2,403)	(2,403)
Effect of movements in exchange rates		-	-	-
Balance at 30 June 2015		**19,702**	**455**	**20,157**

Carrying amounts

In thousands of dollars	Note	Goodwill	Other	Total
Balance at 13 October 2014		**-**	**-**	**-**
Balance at 30 June 2015		**73,832**	**7,891**	**81,723**

(b) Impairment test

For the purpose of impairment testing, goodwill is allocated to the Group's CGUs as follows.

In thousands of dollars	Note	2015
SurfStitch Pty Limited		24,432
SurfStitch Europe Pty Limited		-
Surfdome Shop Limited		30,557
SurfStitch USA, Inc.		9,866
Magicseaweed Limited		6,997
Rollingyouth Pty Ltd		1,980
Total goodwill		**73,832**

The recoverable amount of these CGUs was based on value in use, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount include management's cash flow projections, based on financial budgets for FY16, determined using historical performance, as well as management's assessment of future trends in the online retail industry applicable to the region in which each CGU operates.

Forecasts are calculated for FY17 to FY20 using an FY16 base, and adopting revenue growth rates ranging from 10% to 25%, consistent with historical trends and forecasted market analysis, and an EBITDA percentage of between 2.6% and 14% of revenue, consistent with expected forecast performance and comparable companies. 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 has been applied.

Management then assess the terminal value based on their assessment of the long term compound annual EBITDA growth rate, consistent with the assumptions a market participant will make. The terminal value is based on an EBITDA multiple of 5 times year 5 cash flows.

Management believes any reasonable change in key assumptions would not cause the Group's intangible assets carrying amount to exceed the recoverable amount of these CGUs.

During the period, an impairment expense of $19,702,000 was recorded in the statement of profit and loss, within the loss from discontinued operations. This impairment was a result of management's strategic decision to remove the presence of the SurfStitch brand in Europe through its SurfStitch France operations.

19. CAPITAL AND RESERVES

(a) Share capital

	2015	
	Shares	$'000s
In issue at 13 October 2014	2	-
Issued for cash as part of IPO (ii)	83,192,359	83,192
Issued for consideration for purchase of SHPL and SDUK (iii)	127,031,327	127,031
Issued for no cash consideration on purchase of SHPL (vi)	3,400,000	-
Issued for cash (iv, v)	28,333,499	42,500
Issued under share-payment arrangements (vi)	518,781	-
Capital raising costs	-	(4,399)
In issue at 30 June 2015	**242,475,968**	**248,325**

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

(i) 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.

(ii) Initial public offering (IPO)

On 16 December 2015, SGL completed an IPO raising $83,192,359 at an issue price of $1.00 per share. Funds received were offset by $3,687,000 in transactions costs (net of $660,000 tax) incurred in relation to the issue of new Company shares.

(iii) Issued to acquire SHPL and SDUK

On 16 December 2015, in conjunction with the IPO, SGL issued 127,031,327 shares to the existing shareholders of SurfStitch Holdings Pty Limited in consideration for acquiring 100% of the shares of SurfStitch Holdings Pty Limited and Surfdome Shop Limited.

(iv) Institutional placement

On 14 May 2015, SGL completed an additional placement of 25,000,000 new shares raising $37,500,000 at an issue price of $1.50 per share. Funds received were offset by $702,000 in transactions costs (net of $126,000 tax) incurred in relation to the issue of new Company shares.

(v) Additional share purchase plan

On 12 June 2015, SGL issued 3,333,499 shares under a share purchase plan to existing shareholders raising $5,000,000 at an issue price of $1.50 per share. Funds received were offset by $10,000 in transaction costs (net of $1,000 tax) incurred in relation to the issue of new Company shares.

(vi) Vested share-based payment arrangements

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

(b) 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 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 purchased on 16 December 2014, being the date SGL acquired SHPL. Refer to note 5 for further details.

(c) Dividends

No dividends were declared or paid by the Company for the period.

20. TRADE AND OTHER PAYABLES

In thousands of dollars	Note	2015
Trade payables		26,641
Trade payables due to related parties	27	148
Other payables		7,815
Accrued expenses		1,527
Total trade and other payables		**36,131**
Current		36,131
Non-current		-
Total trade and other payables		**36,131**

Information about the Group's exposure to currency and liquidity risk is included in note 22.

21. PROVISIONS

In thousands of dollars	Note	Customer returns	Make good	Onerous contracts	Total
Balance at 13 October 2014		-	-	-	-
Assumed in a business combination	5	1,280	180	-	1,460
Provisions made during the period		1,131	246	720	2,097
Provisions used during the period		(1,280)	-	-	(1,280)
Provisions reversed during the period		-	-	-	-
Effect of movements in exchange rates		(1)	-	-	(1)
Balance at 30 June 2015		**1,130**	**426**	**720**	**2,276**
Current		1,130	341	720	2,191
Non-current		-	85	-	85
Total provisions		**1,130**	**426**	**720**	**2,276**

(a) Customer returns

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

(b) 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.

(c) Onerous contracts

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

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

(a) 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 2015.

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 2015.

(b) Financial risk management

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

- credit risk (see (b)(ii))
- liquidity risk (see (b)(iii))
- market risk (see (b)(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. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(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.

Trade and other receivables

In the view of the directors, the Group's exposure to credit risk is not significant due to immediate cash settlement at time of sale with no sales made on deferred payment terms.

At 30 June 2015, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

In thousands of dollars	Note	2015
Asia Pacific		723
Europe		965
United States of America		292
Total trade and other receivables	15	**1,980**

Impairment

At 30 June 2015, the aging of the trade and other receivables that were not impaired was as follows:

In thousands of dollars	Note	2015
Neither past due nor impaired		1,980
Total trade and other receivables	15	**1,980**

As noted above, the directors believe the Group's exposure to credit risk is minimal and no allowance for doubtful debts has therefore been recognised. There were no amounts written off during the period.

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT CONTINUED

Cash and cash equivalents

The Group held cash and cash equivalents of $40,837,000 at 30 June 2015. 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.

(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 2015, the expected cash flows from trade and other receivables maturing within two months were $1,980,000.

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 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	36,131	26,789	9,342	-	-	-
Total non-derivative financial liabilities	**36,131**	**26,789**	**9,342**	**-**	**-**	**-**

(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.

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 as follows.

In local currency (thousands)	2015 EUR	2015 GBP	2015 USD
Trade and other receivables	23	474	235
Trade and other payables	(1,657)	(8,593)	(5,154)
Net statement of financial position exposure	**(1,634)**	**(8,119)**	**(4,919)**

The following significant exchange rates have been applied in preparing the consolidated statement of financial position and consolidated statement of profit or loss and as at and for the period ended 30 June 2015:

In AUD	2015 Average rate	2015 Year-end spot rate
EUR	0.73	0.71
GBP	0.55	0.51
USD	0.87	0.80

Sensitivity analysis

A reasonably possible strengthening or weakening of the AUD against the below currencies at 30 June 2015 would have affected the measurement of financial instruments 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.

	Profit or (loss)		Equity, net of tax	
Effect in thousands of dollars	Strengthening	Weakening	Strengthening	Weakening
EUR (1% movement)	(133)	133	38	(38)
GBP (1% movement)	(20)	20	(180)	180
USD (1% movement)	(18)	18	(6)	6

23. LIST OF SUBSIDIARIES

Set out below is a list of material subsidiaries of the Group:

NAME	COUNTRY OF INCORPORATION	YEAR END	OWNERSHIP INTEREST 2015
SurfStitch Holdings Pty Limited	Australia	30 June	100%
SurfStitch Pty Limited	Australia	30 June	100%
SurfStitch (Europe) Limited	Australia	30 June	100%
SurfStitch USA, Inc.	USA	30 June	100%
Surfdome Shop Limited	UK	30 June	100%
Magicseaweed Limited	UK	28 February	100%
Metcentral Limited	UK	28 February	100%
Red Tree Digital Limited	UK	28 February	100%
Rollingyouth Pty Limited	Australia	30 June	100%
Rollingyouth USA, Inc.	USA	31 December	100%

All subsidiaries with a current year end date different to Group year end of 30 June will align their year end date before the next Group year end.

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.

(a) Future minimum lease payments

At 30 June, the future minimum lease payments under non-cancellable leases were payable as follows.

In thousands of dollars	Note	2015
Less than one year		2,690
Between one and five years		2,275
More than five years		-
Total future minimum lease payments		**4,965**

(b) Amounts recognised in profit or loss

In thousands of dollars	Note	2015
Lease expense		1,630
Onerous lease expense		306
Total amounts recognised in profit or loss	8	**1,936**

25. COMMITMENTS

The Group has no material capital commitments as at 30 June 2015.

26. CONTINGENCIES

The Group has no material contingent liabilities as at 30 June 2015.

27. RELATED PARTIES

(a) Parent and ultimate controlling party

SurfStitch Group Limited was incorporated on 13 October 2014 and was the parent and ultimate controlling party of the Group throughout the period from incorporation to 30 June 2015.

(b) Transactions with key management personnel

(i) Key management personnel compensation

The key management personnel compensation comprised the following.

In dollars	Note	2015
Short-term employee benefits		2,697,658
Post-employment benefits		35,918
Other long term benefits		-
Termination benefits		-
Share-based payments		186,063
Total key management personnel compensation		**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

Directors of the Company control 14.8% of the voting shares of the Company.

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.

(c) 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 were as follows:

In dollars	Transaction value for the period ended 30 June 2015	Balance outstanding at 30 June 2015
Streamline Retail Pty Ltd	476,598	147,579

27. RELATED PARTIES CONTINUED

(c) Transactions with other related parties (continued)

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

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

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

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

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

28. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of dollars	Note	2015
Cash flows from operating activities		
Loss for the period		(47,277)
Adjustments for:		
Depreciation	17(a)	684
Amortisation	18(a)	2,858
Equity-settled share-based payment transactions	10	1,390
Impairment expense		19,702
Income tax expense	13	(3,583)
Loss on disposal of property, plant and equipment		376
Loss on disposal of intangible assets		1,334
Net foreign currency losses		10
Net finance income		(131)
		(24,637)
Changes in:		
Trade and other receivables		6,818
Inventories		5,214
Other assets		105
Trade and other payables		(5,996)
Employee benefits		(542)
Provisions		816
Deferred income		383
		(17,839)
Interest paid		(7)
Net cash from operating activities		**(17,846)**

29. AUDITORS' REMUNERATION

In dollars	Note	2015
Audit and review services		
Auditors of the Company - KPMG		
Audit and review of financial statements		361,850
Other auditors		
Audit and review of financial statements		6,666
Other services		
Auditors of the Company - KPMG		
In relation to other assurance, taxation and due diligence services		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 ("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 holding entity of the Deed and the subsidiaries subject to the Deed, entered into the Deed on 29 June 2015.

The subsidiaries subject to the Deed are:

- SurfStitch Holdings Pty Limited
- SurfStitch Pty Limited
- SurfStitch (Europe) Limited

A consolidated statement of profit or loss and other comprehensive income and 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 2015 is set out as follows.

(a) Statement of profit or loss and other comprehensive income

In thousands of dollars	2015
Revenue	47,090
Cost of sales	(33,548)
Gross profit	**13,542**
Other income	25
Selling and distribution expenses	(23,959)
Administrative expenses	(7,678)
Impairment expense	(19,702)
Other expenses	(7,471)
Finance income	807
Finance costs	(6)
Loss before tax	**(44,442)**
Income tax benefit	994
Loss after tax	**(43,448)**
Other comprehensive income for the period, net of tax	700
Total comprehensive loss for the period, net of tax	**(42,748)**
Attributable to:	
Equity holders of the Company	(42,748)
Loss for the period	**(42,748)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM OCTOBER 2014 TO 30 JUNE 2015 - CONTINUED

(b) Statement of financial position

In thousands of dollars	2015
Current assets	
Cash and cash equivalents	35,197
Trade and other receivables	461
Related party receivables	19,037
Inventories	11,063
Other assets	865
Total current assets	**66,623**
Non-current assets	
Deferred tax assets	3,400
Property, plant and equipment	1,615
Intangible assets	4,184
Investment in subsidiaries	70,197
Goodwill	24,433
Total non-current assets	**103,829**
Total assets	**170,452**
Current liabilities	
Trade and other payables	12,516
Related party payables	983
Employee benefits	1,060
Income tax provision	989
Provisions	1,165
Deferred income	278
Total current liabilities	**16,991**
Non-current liabilities	
Employee benefits	123
Deferred tax liabilities	187
Total non-current liabilities	**310**
Total liabilities	**17,301**
Net assets	**153,151**
Equity	
Share capital	248,325
Reserves	(51,726)
Retained earnings	(43,448)
Total equity	**153,151**

31. PARENT ENTITY DISCLOSURES

As at, and throughout, the period from 13 October 2014 to 30 June 2015 the parent entity of the Group was SurfStitch Group Limited.

(a) Result of parent entity

In thousands of dollars	**2015**
Loss for the period	(27,210)
Other comprehensive income	-
Total comprehensive loss for the period	**(27,210)**

(b) Statement of financial position of parent entity

In thousands of dollars	2015
Current assets	
Cash and cash equivalents	30,488
Inventories	-
Current tax assets	-
Other assets	54
Total current assets	**30,542**
Non-current assets	
Related party receivables	64,123
Deferred tax assets	1,611
Property, plant and equipment	-
Intangible assets	11
Investment in subsidiary	130,614
Goodwill	-
Total non-current assets	**196,359**
Total assets	**226,901**
Current liabilities	
Trade and other payables	888
Employee benefits	-
Income tax provision	-
Provisions	-
Deferred income	-
Total current liabilities	**888**
Non-current liabilities	
Employee benefits	-
Provisions	-
Deferred tax liabilities	-
Total non-current liabilities	**-**
Total liabilities	**888**
Net assets	**226,013**
Equity	
Share capital	248,325
Reserves	4,898
Retained earnings	(27,210)
Total equity	**226,013**

31. PARENT ENTITY DISCLOSURES CONTINUED

(c) Parent entity contingent liabilities

The directors confirm that the parent entity does not hold any contingent liabilities that require disclosure.

(d) Parent entity capital commitments for acquisition of property plant and equipment

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

(e) 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 period 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 PERIOD FROM 13 OCTOBER 2014 TO 30 JUNE 2015

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

SHAREHOLDINGS (AS AT 20 AUGUST 2015)

(a) Substantial shareholders

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

Shareholder	Number of ordinary shares held
Ausbil Investment Management Limited	21,292,218
Janchor Partners Limited	17,657,139
Justin Peter Cameron	17,398,223
Perpetual Limited and subsidiaries	17,176,462
UBS Group AG and its related bodies corporate	16,783,000
Lex Ward Pedersen	16,397,223
Quest Asset Partners Pty Ltd	13,522,973
Challenger Limited (and entities)	13,500,000

(b) Voting rights

(i) Ordinary shares

Refer to note 19 in the financial statements.

(ii) Options

There are no options on issue.

(iii) Rights

There are no voting rights attached to the rights.

(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.

(c) Distribution of equity security holders

Category	Ordinary shares	Rights
1 - 1,000	208	-
1,001 - 5,000	387	5
5,001 - 10,000	152	12
10,001 - 100,000	290	16
100,001 and over	90	5
Total	**1,127**	**38**

The number of shareholders holding less than a marketable parcel of ordinary shares is 23.

(d) Shares subject to escrow

Category	Number of shares	Escrow period ending		
		28-02-15	28-08-15	28-02-16
Founders	22,997,223	-	11,498,612	11,488,611
Third party shareholders	90,518,750	45,259,381	45,259,369	-
Total securities subject to voluntary escrow	113,515,973	45,259,381	56,757,981	11,498,611

(e) 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
FOR THE PERIOD FROM 13 OCTOBER 2014 TO 30 JUNE 2015 - CONTINUED

TWENTY LARGEST SHAREHOLDERS (AS AT 20 AUGUST 2015)

Shareholder	Number of ordinary shares held	Percentage of capital held
National Nominees Limited	35,215,256	14.52%
J P Morgan Nominees Australia Limited	26,286,246	10.84%
HSBC Custody Nominees (Australia) Limited	25,308,845	10.44%
Citicorp Nominees Pty Limited	20,535,984	8.47%
National Nominees Limited	13,921,668	5.74%
Justin Paul Towells Stone	11,225,983	4.63%
Online Brands Pty Limited	10,197,223	4.20%
RBC Investor Services Australia Nominees Pty Limited	9,513,555	3.92%
Citicorp Nominees Pty Limited	8,079,919	3.33%
Argo Investments Limited	6,750,000	2.78%
Justin Peter Cameron	6,000,000	2.47%
Lex Ward Pedersen	5,000,000	2.06%
Merrill Lynch (Australia) Nominees Pty Limited	4,875,000	2.01%
BNP Paribas Noms Pty Limited	2,852,203	1.18%
RBC Investor Services Australia Nominees Pty Limited	2,650,042	1.09%
Pacific Custodians Pty Limited	2,600,000	1.07%
UBS Wealth Management Australia Nominees Pty Limited	2,499,483	1.03%
J P Morgan Nominees Australia Limited	2,328,456	0.96%
UBS Nominees Pty Limited	2,298,728	0.95%
HSBC Custody Nominees (Australia) Limited	2,124,326	0.88%

OFFICES AND OFFICERS

Company secretary

Mrs Karen Birner

Registered office

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CORPORATE DIRECTORY

COMPANY SECRETARY

Mrs Karen Birner

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SHARE REGISTRY

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Brisbane QLD 4000

SECURITIES EXCHANGE

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

INVESTOR RELATIONS

Ms Clover Chambers
https://www.surfstitchgroup.com/investors/

AUDITORS

KPMG
10 Shelley Street
Sydney NSW 2000
Telephone: (02) 9335 7225 (within Australia)
+61 2 9335 7225 (outside Australia)

OTHER INFORMATION

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

SurfStitch Group