

ASX RELEASE

9 June 2016

Company Announcements Platform
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

SurfStitch Group Company Update

Update on Trading

As a result of events in 2H FY2016, SurfStitch Group Limited (“SurfStitch” or the “Company”) (ASX: SRF) has formed the view that it should record an amendment in 2H FY2016 to its treatment of a transaction that occurred in 1H FY2016. The transaction related to the grant of a perpetual licence to a third party to use the Company’s content contained in its subsidiaries – SurfStitch, Garage Entertainment, Rolling Youth and MagicSeaweed.

In 2H FY2016, the Company entered into a set of agreements with the same party effective 15 March 2016 for the provision of various services including access to software and hosting the SurfStitch online store, and which extended the payment terms of the perpetual licence agreement.

An in-depth review of the business has been undertaken including these subsequent contracts. As a result of this review and recent information that has come to hand, the Company believes in substance an amendment to the original contract has occurred in 2H FY2016.

The effect of this is that \$20.3 million of revenue will be reversed and reflected in the full year results.

Other than as set out above, there is no variation to the update relating to trading conditions in 2H FY2016 announced on 3 May 2016. However, the impact of the above charge means the Company now advises that pro-forma EBITDA for FY2016 is likely to be a loss, in the range of \$17.3 million to \$18.3 million.

The Company is in the process of discussing these arrangements with the third party but the outcome is uncertain although it is not expected to affect pro-forma EBITDA in any material way.

As the Company advised on 3 May 2016, FY2016’s performance has been adversely impacted by challenging trading conditions in key markets, near term investment in the Company’s platform and processes and the slower than anticipated integration of the companies acquired over the last 12 months.

For personal use only

Outlook

SurfStitch expects to return to profitability and be cash-flow positive during FY2017. The Company will provide a comprehensive review of its trading performance and an updated outlook in its full year results presentation in August.

Appointment of new CEO

SurfStitch has today announced the appointment of Mike Sonand as Group CEO with immediate effect.

The Company's current joint CEOs, Mr Lex Pedersen and Mr Justin Stone will assume new positions with Mr Pedersen, Director – Business Development and Mr Stone, Director – Global Support. In their new roles, Lex and Justin will report to Mike Sonand and will both continue to focus on the global business.

Mr Sonand has strong global retail sector experience with previous roles including COO of the Charles Parsons Group and CEO of M Webster Holdings and Globe International.

SurfStitch Chairman, Howard McDonald, said in his first month in the role Mike had already made a significant contribution to the Group.

"Mike has already had a very positive impact on the leadership team and has spent a considerable amount of time visiting all the businesses in the group. He has already demonstrated a firm grasp of the Company's immediate priorities and growth initiatives. Justin and Lex, who are both very supportive of the appointment, will now focus on delivering outcomes in their new roles," Mr McDonald said.

Mike Sonand, SurfStitch's new CEO, said "I am very excited to be given the opportunity to lead the SurfStitch Group, a highly innovative business with an engaged and talented team. There are both major opportunities and challenges and one of my first priorities is to establish an operating and management framework, which Lex's and Justin's new positions are a part of, that I believe will restore the business to a position of strength. I am fully focused on rebuilding value for shareholders," Mr Sonand said.

Appointment of new NED

The Company has also today announced that Sam Weiss will join the SurfStitch Board as a Non-Executive Director effective from 1 July 2016.

Sam has more than 20 years of experience in senior management and director roles with broad industry expertise in technology, retail and ecommerce companies in Australia, North America, Europe and Asia. He is currently Chairman of Altium Limited, 3PLearning Limited and online retail marketplace Ensogo Limited.

Howard McDonald, said Mr Weiss would bring a wealth of technology and retail sector experience and a range of skills to the Board.

“Sam is a highly experienced public company director with a strong background in software and technology, online retailing and digital marketing. He has an extensive track record of working across global markets as well as in mergers & acquisitions and corporate restructurings. We look forward to working with him,” Mr McDonald said.

-ENDS-

For further information, please contact Helen McCombie (0411 756 248) or Matthew Gregorowski (0422 534 755) at Citadel-MAGNUS.

ABOUT MIKE SONAND

Mike has had an extensive career in the retail sector both in Australia and internationally. From 2011-September 2014, he was Chief Operating Officer of Charles Parsons Group, a leading wholesaler of fabrics, textiles, homewares and fashion where he implemented a restructuring across its six businesses and management team.

In 2010 as CEO of M Webster Holdings, a vertical fashion retailer with the David Lawrence, Marcs and Jigsaw brands he oversaw the successful turnaround of the business. From January 2007 to December 2009 as General Manager of Outerware and Sport for Pacific Brands, he led the implementation of significant operational improvements across the business.

Prior to joining Pacific Brands, he held a number of senior executive positions at action board sports and street apparel business, Globe International, including Group COO and CEO Australasia, Group Chief Executive Officer and Group Chief Financial Officer. During his tenure as CEO of Globe International, the market capitalisation of the company tripled from \$70 million to \$220 million.

Mike also held senior roles at Just Jeans Group and Myer.

The key terms of Mr Sonand’s appointment as CEO are set out below:

Employing entity	SurfStitch Holdings Pty Limited (SHL).
-------------------------	---

Commencement Date	8 June 2016.
--------------------------	--------------

Fixed Remuneration	\$550,000 per annum.
---------------------------	----------------------

For personal use only

Short Term Incentive (STI) Target opportunity for the 2017 financial year is 25% of Fixed Remuneration with a maximum opportunity of 50% of Fixed Remuneration based on achievement against performance measures.

Long Term Incentive (LTI) For the 2017 financial year, Mike will be eligible to receive an LTI award of 1 million performance rights subject to a service condition and a relative total shareholder return performance condition measured over a 3 year performance period.

LTI participation and terms in future years are at the discretion of the Board.

Notice Period 6 months by SHL and 6 months by Mike.

SHL may terminate immediately in circumstances of serious misconduct.

Post-Employment Restraint 12 month non-compete and 12 month non-solicit.

ABOUT SAM WEISS

Sam Weiss has been a professional Non-Executive Director and Chairman since 2001 and has served on a variety of listed and private retail, ecommerce and technology company Boards. He is currently Chairman of Altium, a leading developer of electronic design software for printed circuit boards, 3PLearning Limited, a global leader in K to 12 online education and Ensogo Limited, an online retail marketplace. He is a former Director of OrotonGroup Limited, Breville Group Limited and iProperty Limited.

Sam has more than thirty years executive experience in technology, retail and ecommerce in the US, Europe, Asia and Australia. Educated at Harvard University and Columbia University, he has held several director positions including Managing Director of Textile Industries Australia (Sheridan), CEO of software developer of professional training products business ICAM, COO of Nike (Netherlands) where he was responsible for Nike Retail in Central and Eastern Europe and the Middle East, and VP, Asia Pacific for Fortune 200 Personal Computer maker, Gateway Computers.

For personal use only