PROSPECTUS

Afterpay Holdings Limited
ACN 606 589 520

INITIAL PUBLIC OFFER
Prospectus for the issue of 25 million fully paid ordinary shares at an issue price of $1.00 per share to raise $25 million

Joint Lead Managers

Wilson HTM

BELL POTTER

Important Information

Offer
This Prospectus is issued by Afterpay Holdings Limited (**Afterpay** or the **Company**) (ACN 606 589 520) for the purposes of Chapter 6D of the *Corporations Act 2001* (Cth) (**Corporations Act**). The Offer contained in this Prospectus is an invitation to apply for 25,000,000 fully paid ordinary shares (**New Shares**) in the Company (the **Offer**).

Lodgement and Listing
This Replacement Prospectus (Prospectus) is dated 14 April 2016 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date, and replaces the Prospectus dated 24 March 2016 (**Prospectus Date**). Afterpay will apply to ASX Limited (**ASX**) within seven days of the Prospectus Date for admission of the Company to the Official List and Quotation of its Shares on the ASX. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The Company, the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

Expiry Date
No New Shares will be issued on the basis of this Prospectus later than 13 months after the Prospectus Date.

Not investment advice
The information contained in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs.

It is important that you read this Prospectus carefully and in its entirety and seek professional advice where necessary before deciding whether to invest in the Company.

In particular, you should consider the risk factors that could affect the performance of Afterpay. You should carefully consider these risks in light of your personal circumstances (including financial and tax issues) and seek professional advice from your stockbroker, solicitor, accountant, tax advisor or other independent and qualified professional adviser before deciding whether to invest in Shares. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in the light of your personal circumstances.

Except as required by law, and only to the extent required, no person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company or the repayment of capital or any return on investment made pursuant to this Prospectus. This Prospectus includes information regarding past performance of Afterpay. Investors should be aware that past performance is not indicative of future performance.

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information not so contained may not be relied upon as having been authorised by the Company, the Joint Lead Managers or any other person in connection with the Offer. You should only rely on information contained in this Prospectus.

Disclosing Entity
Once admitted to the Official List, the Company will be a disclosing entity for the purposes of the Corporations Act and as such will be subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. Refer to Section 6.8 for further information.

Financial information presentation
The financial information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Section 4. Section 4 sets out in detail the financial information referred to in this Prospectus and the basis of preparation of that information. All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest $1,000 unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding. Investors should be aware that certain financial data included in this Prospectus is 'non-IFRS financial information' under Regulatory Guide 230 Disclosing non-IFRS financial information, published by ASIC. The Company believes this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of Afterpay. The non-IFRS measures do not have standardised meanings prescribed by Australian Accounting Standards and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial information and ratios included in this Prospectus.

Unless otherwise stated or implied, all pro forma data in this Prospectus gives effect to the pro forma adjustments referred to in Section 4.4.

Forward looking statements
This Prospectus may contain forward looking statements, which may be identified by words such as "may", "could", "believes", "estimates", "expects" or "intends" and other similar words that connote risks and uncertainties. Certain statements, beliefs, and opinions contained in this Prospectus, in particular those regarding the possible or assumed future financial or other performance, industry growth or other trend projections are only predictions and subject to inherent risks and uncertainties. No financial forecasts have been prepared.

Except as required by law, and only to the extent so required, neither the Company, its Directors nor any other person gives any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on such forward looking statements.

Any forward looking statements are subject to various risk factors, many of which are beyond the control of the company and its Directors that could cause Afterpay actual results to differ materially from the results expressed or anticipated in these statements.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the Prospectus date, are expected to take place.

Forward looking statements should be read in conjunction with risk factors set out in Section 5 and other information in this Prospectus.

The Company has no intention to update or revise forward-looking statements, or to publish prospective Financial Information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

This Prospectus, including the industry overview in Section 2, uses market data and third party estimates and projections. There is no assurance that any of the third party estimates or projections contained in this information will be achieved. The Company has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the key risk factors set out in Section 5.

Foreign Jurisdictions
This Prospectus does not constitute an offer or invitation to apply for New Shares in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. No action has been taken to register or qualify the New Shares or the Offer, or to otherwise permit a public offering of the New Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. For details of selling restrictions that apply to the New Shares in certain jurisdictions outside of Australia please refer to Section 7.15.

Exposure Period
The Corporations Act prohibits the Company from processing Applications to subscribe for New Shares under this Prospectus (**Applications**) in the 14 day period after the Prospectus Date (the **Exposure Period**). The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Applications may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

Applications
Applications may be made only during the Offer Period on the appropriate application form (**Application Form**) attached to, or accompanying, this Prospectus in its paper copy form, or in its electronic form which must be downloaded in its entirety from www.afterpay.com.au. By making an application, you represent and warrant that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing on to another person the Application Form unless it is attached to, or accompanied by, the complete and unaltered version of this Prospectus.

Electronic Prospectus
The Company proposes to make this Prospectus available on its website at www.afterpay.com.au.

The Offer constituted by this Prospectus in electronic form is available only to persons within Australia. It is not available to persons in other jurisdictions (including the United States or US Persons). Persons who access the Prospectus in electronic form should ensure that they download and read the entire Prospectus.

Persons having received a copy of this Prospectus in its electronic form may, before the Closing Date of the Offer, obtain a hard copy of this Prospectus free of charge by contacting the Afterpay Information Line on 1300 378 930 (toll free within Australia) between 9:00am and 5:00pm Melbourne time. Applications for New Shares may only be made on an Application Form attached to, or accompanying, this Prospectus, or in its paper copy form which must be downloaded in its entirety from www.afterpay.com.au.

The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, nor incorporated into, this Prospectus, which should form the basis of your investment decision.

No cooling-off rights

Cooling-off rights do not apply to an investment in New Shares issued under a Prospectus. This means that, in most circumstances, you cannot withdraw your application once it has been accepted.

Defined Terms and Time

Some of the terms and abbreviations used in this Prospectus have defined meanings. These are capitalised and are defined in Section 10 of this Prospectus. Unless otherwise stated or implied, a reference to a time is a reference to Melbourne time.

Privacy

By filling out and submitting an Application Form to apply for New Shares, you are providing personal information to Afterpay through Afterpay's service provider, the Share Registry. Afterpay, and the Share Registry on its behalf, collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested in the Application Form, Afterpay and the Share Registry may not be able to process or accept your Application. Your personal information may also be used from time to time to inform you about other products and services offered by Afterpay which it considers may be of interest to you.

Your personal information may also be provided to Afterpay's agents and service providers on the basis that they deal with such information in accordance with Afterpay's privacy policy and as authorised under the Privacy Act 1988 (Cth). Afterpay's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- the Joint Lead Managers and Underwriters in order to assess your Application;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing Afterpay's shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the New Shares for associated actions.

You may request access to your personal information held by (or on behalf of) Afterpay. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information.

You can request access to your personal information by writing to or by telephoning the Share Registry as follows:

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Australia
(Toll free) 1300 378 930

If any of your information is not correct or has changed, please contact the Share Registry or Afterpay to update your information. In accordance with the requirements of the Corporations Act, information on the share register will be accessible to certain members of the public.

Photographs and diagrams

Photographs used in this Prospectus which do not have descriptions are for illustration purposes only and should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

Offer Management

The Offer is jointly managed and underwritten by Bell Potter Securities Limited ABN 25 006 390 772 and Wilson HTM Corporate Finance Ltd (ABN 65 057 547 323).

Replacement Prospectus

This Replacement Prospectus made certain changes to the original prospectus lodged on 24 March 2016. In overview, the material changes were:

- Presenting underlying merchant sales on a monthly basis rather than annualised basis. A replacement chart is in Section 3.4.5;
- More detail of Afterpay's merchant fee revenue is included, including a new chart in Section 3.4.5;
- Section 2.4 describes Afterpay's competitive differentiation, and Its known competitors are described. Previous examples of other business models have been deleted;
- Section 3.4.2 outlines how the Transaction Integrity Engine processes requests for approval in real time;
- Afterpay's present and potential future products are described in more detail, and Section 3.11 outlines how the regulatory environment applies to both;
- Additional detail on bad and doubtful debts and net transaction losses is included, such as in Section 4.3.2;
- Section 3.10 describes In more detail how Afterpay's business is and will be funded, and the associated risks in Section 5.2.4;
- The barriers to potential overseas expansion are described in Section 3.9; and
- Afterpay's intellectual property is further detailed in Section 3.12.

Further Queries

Call the Afterpay Information Line on 1300 378 930 (from within Australia) between 9:00am and 5:00pm Melbourne time if you require assistance to complete the Application Form, require additional copies of this Prospectus or have any questions in relation to the Offer.

If you are unclear in relation to any matter or are uncertain as to whether obtaining New Shares in Afterpay is a suitable investment for you, you should seek professional advice from your solicitor, stockbroker, accountant, tax adviser or other independent and qualified professional adviser before deciding whether or not to invest.

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Key Offer Information

IMPORTANT DATES	
Prospectus Date	24 March 2016
Date of this Replacement Prospectus	14 April 2016
Opening Date of Offer	14 April 2016
Closing Date of Offer	26 April 2016
Allotment of New Shares (Completion of Offer)	3 May 2016
Expected despatch of Holding Statements	4 May 2016
Shares expected to begin trading on ASX (on a deferred settlement basis)	4 May 2016
Shares expected to begin trading on ASX (on a normal settlement basis)	5 May 2016

Dates may change

The above dates are subject to change and are indicative only. The Company (in consultation with the Joint Lead Managers) reserves the right to vary the dates and times of the Offer, including to close the Offer early, extend the Offer or accept late Applications, without notifying any recipient of this Prospectus or any Applicants. Applicants are encouraged to submit their Applications as early as possible.

KEY OFFER STATISTICS	
Offer Price per New Share	$1.00
Total number of New Shares to be issued under the Offer	25 million
Total number of Existing Shares prior to the Offer	140 million
Total number of Shares on issue on Completion of the Offer (1)	165 million
Market capitalisation at the Offer Price (2)	$165 million
Number of Options on issue (3)	14,475,000

(1) The total number of Shares on issue on Completion of the Offer includes:

- 140,000,000 Shares held by Existing Shareholders that will be subject to escrow arrangements for various periods as described further in Section 9.5; and
- 25,000,000 Shares, including all the New Shares issued under the Offer, that are not the subject of any escrow agreements.

(2) Calculated as the total number of Shares on issue following the Offer multiplied by the Offer Price

(3) Details of the Options on issue are set out in Section 6.7

How to invest

Applications for New Shares can only be made by completing and lodging an Application Form contained in this Prospectus. Instructions on how to apply are set out in Sections 7.10, 7.11 and 7.12 and on the back of the Application Form. Applications must be for at least 2,000 New Shares and in multiples of 1,000 thereafter.

Letter from the Chair

24 March 2016

Dear Investor

On behalf of the Directors of Afterpay Holdings Limited (**Afterpay** or the **Company**), I am delighted to present to you the opportunity to participate in the ownership and future growth of Afterpay.

Afterpay is a technology driven payments company that facilitates online commerce between retail merchants and end-customers. Our current product is very simple – we allow end-customers to 'buy now and pay later' without taking out a traditional loan or paying upfront fees or interest. Retail merchants are attracted to Afterpay because we help them to increase sales and average order values. Afterpay pays the retail merchant upfront and assumes all non-payment risk. For this, the retail merchant – as opposed to the end-customer – pays Afterpay a fee.

Afterpay can generate a gross margin by providing its service to retail merchants and end-customers alike because we have developed a Transaction Integrity Engine which allows us to make real time fraud and repayment capability assessments. Afterpay's technology has been developed in association with Touchcorp Limited which is at the forefront of providing scalable, secure transaction processing technology solutions to blue-chip companies in Australia and overseas.

Afterpay is growing strongly and has a large pipeline of on-boarding merchants. The Directors and Staff are proud of our achievements to date, and see the Initial Public Offer of Afterpay as the next logical step towards meeting our long term growth strategy.

The Company is seeking $25 million through the issue of 25 million New Shares at a price of $1.00 per Share. The funds raised will be used to bolster our funding and working capital in order to enable the business to grow its end-customer pay by instalment activities and support applications for external sources of finance, plus accelerate the development of Afterpay's retail merchant client base and end-customer product offering. The Offer provides an opportunity for you to share in our exciting future.

This Prospectus contains detailed information about the Offer and the financial and operating performance of Afterpay. It also includes a description of the key risks associated with an investment in Afterpay. I encourage you to read the Prospectus carefully and in its entirety before making your investment decision. You should seek professional advice if required.

Afterpay is an early stage company that was recently incorporated, and its business has only operated since the first half of calendar 2015. Accordingly, investment in the Company should be considered speculative.

On behalf of the Board, I look forward to welcoming you as a Shareholder.

Yours sincerely,

Anthony Eisen
Executive Chairman
Afterpay Holdings Limited

01 Investment Overview

1.1 Business Overview

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Afterpay's business?	Afterpay is a technology driven payments company which commenced activities in the first half of calendar 2015. Afterpay's business is still at an early stage, and currently operates at a loss. Afterpay provides a service and software infrastructure that allows its retail merchant clients to offer end-customers the ability to buy goods and services on their web sites on a 'buy now, pay later' basis without end-customers having to: • Apply for or enter into a traditional loan • Pay any additional amount (by way of interest, or any upfront fees) for the merchant's items on sale • Provide extensive personal information that would likely cause delay or failure to complete a purchase Instalment payment terms are presented to end-customers for a maximum of 56 days. The purchase value is recouped by Afterpay from end-customers usually in four equal, fortnightly instalments. Retail merchants benefit from providing the Afterpay service to end-customers because: • A proportion of end-customers are more inclined to make a purchase and/or will increase the value of their purchase because of the affordability and flexibility attributes of the Afterpay service • Afterpay pays the retail merchant upfront and assumes all end-customer non-payment risks Afterpay has been growing strongly since it commenced offering its services to Australian based online retail merchants in the first half of calendar 2015. As at 29 February 2016, Afterpay had over 100 live retail merchants, and over 38,000 unique registered end-customers. For the month of February 2016 underlying merchant sales were more than $2.8 million and Afterpay's revenues on those sales were more than $100,000 (unaudited). Afterpay aims to develop its business post-IPO as follows: • Further penetrate existing online retail markets in Australia • Expand into new retail and online markets • Penetrate physical or off-line retail markets with an Afterpay in-store product • Offer longer duration instalment plans to end-customers (subject to regulatory licensing) • Leverage its technology and market positioning into international markets	**Section 3**
What is the Offer?	Afterpay is offering to issue 25 million New Shares at $1.00 per New Share to raise gross proceeds of $25 million (before costs and expenses).	**Section 7.1**

TOPIC	SUMMARY	FOR MORE INFORMATION
Why is the Offer being conducted?	The Offer is being conducted to provide Afterpay with: • Increased funding capital to grow the end-customer instalment payment related activities of its business and to support external sources of finance (when secured), in relation to this activity, that may be obtained in the future • Increased working capital to accelerate the development of Afterpay's retail merchant client base and end-customer product offering including funding for product development, marketing, sales and general business overhead • A liquid market for its Shares and an opportunity for others to invest in Shares • Additional financial flexibility and access to capital markets to pursue possible growth opportunities	**Section 7.4**

1.2 Key Features of Afterpay's Business Model

TOPIC	SUMMARY	FOR MORE INFORMATION
How does Afterpay generate its revenue?	Afterpay receives its revenue primarily from transaction fees paid by its retail merchant clients (Merchant Fees) in relation to underlying Afterpay sales on their web sites. Merchant Fees are generated on each discrete, approved order placed by the end-customer through the Afterpay System. Merchant Fees are predominantly based on a percentage of the end-customer order value plus a fixed per transaction fee. Late payment fees are also rendered against the end-customer in some circumstances where the end-customer fails to have sufficient funds available to have payments automatically collected by the Afterpay System on due payment dates. Late payment fees are not intended to be a primary revenue component for Afterpay but serve more as an incentive for end-customers to facilitate on-time payments. Merchant Fees represented approximately 83% of Afterpay's revenues for the six month period ending 31 December 2015. Afterpay's current business model does not include charging end-customers interest or fees for providing credit, as this would be a regulated activity requiring an Australian Credit Licence (ACL). The current business model is not restricted by statutory limits on the duration of end-customer instalment periods, although without an interest charge it may not be economic to offer long term instalment products. Afterpay has applied for an ACL, which (if granted) may provide opportunities to offer additional products in the future with alternative revenue components such as interest.	**Sections 3.4.3 and 3.11**

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Afterpay's technology?	Afterpay is able to provide a compelling and cost-efficient value proposition to its retail merchant clients and their end-customers alike because of its technology, which provides Afterpay with a substantial competitive advantage. Afterpay's technology platform (the Afterpay System) comprises two key components: • The Transaction Integrity Engine • The Afterpay Operating Platform At the core of the Afterpay System is its Transaction Integrity Engine, which conducts end-customer fraud and repayment capability assessments in real-time, allowing Afterpay to make real-time, automated decisions as to whether or not to provide instalment payment terms to any potential end-customer. The Transaction Integrity Engine cannot completely prevent bad debts, and Afterpay is exposed to a certain amount of bad debts from end-customers in the normal operation of its business (see Sections 4.3.2 and 4.8 for details based on historical financial performance). From a business model perspective the Transaction Integrity Engine is a significant competitive advantage because it allows Afterpay to minimise end-customer transaction losses and maintain competitive pricing for retail merchant clients. Afterpay's Transaction Integrity Engine assesses a multitude of transaction attributes and data in real time and applies this information against rules, which are continually being updated, to determine whether or not to approve any particular end-customer transaction. The Transaction Integrity Engine also allows Afterpay to conduct continuous profiling of end-customers that interact with the Afterpay System. This is expected to provide commercially valuable insights to both Afterpay and a range of stakeholders, including Afterpay's retail merchant clients, from which targeted marketing campaigns and/or cross-promotional activities may be conducted in the future. Afterpay has also developed an end-to-end, largely automated, operating platform (the Afterpay Operating Platform) that allows retail merchants to integrate, manage and monitor the way Afterpay is performing on their web sites and for end-customers to monitor and manage their Afterpay transactions and accounts. Afterpay's technology was built and continues to be developed and maintained by Touchcorp Limited (Touchcorp), an ASX publicly listed company, under a Software Development and Licence Agreement. Touchcorp has extensive experience in Australian and international markets in relation to providing payments related services to large consumer facing organisations. The Afterpay System was developed by Touchcorp through the modification and further development of pre-existing Touchcorp technology and systems. All Intellectual Property created as a consequence of development of the Afterpay System is owned by Afterpay. Furthermore, all data, rules and transactional information related to the Afterpay System and business is owned by Afterpay.	**Section 3.4.2**

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Afterpay's technology? cont.	Touchcorp also processes all of Afterpay's transactions on its behalf in return for an ongoing fee, which is set on a 'favoured-nation', competitive price basis. Afterpay and Touchcorp maintain the highest level of transaction security under the Payment Card Industry Data Security Standards (PCI DSS).	Section 3.4.2
How does Afterpay expect to fund its expansion?	To date, Afterpay's operations have been funded through shareholder equity contributions. Afterpay currently has no financial debt. After Listing it is expected that Afterpay will have access to significantly increased funding capital from the proceeds of the Offer, rising from around $3 million at 29 February 2016 to more than $23 million. Afterpay expects these funds to be more than sufficient to fund its current business levels and expected increased funding requirements for known retail merchant integrations. If the business continues to grow rapidly beyond these levels and in the future the Company's post-Offer equity funding is not sufficient to meet demand for increased levels of aggregate instalment payments, then Afterpay intends to seek to supplement its funding capability with external debt facilities. Should debt facilities not be available on acceptable terms, then other options include potentially raising additional equity funding and delaying new retail merchant integrations or approving only higher quality end-customer funding approval requests so as to ensure funding resources are adequate.	Sections 3.10 and 7.4
What is Afterpay's historical financial performance?	See historical consolidated income statements below.	Section 4.3

Historical consolidated income statements

$'000	FY2015[1]	H1 FY2016
Services revenue	24	220
Cost of sales	(5)	(31)
Gross profit	**19**	**189**
Other income	3	46
Bad and doubtful debts	(6)	(189)
Other operating expenses	(55)	(493)
EBITDA	**(39)**	**(447)**
Depreciation and amortisation expense	–	(868)
EBIT	**(39)**	**(1,315)**
Interest revenue	–	57
Loss before tax	**(39)**	**(1,257)**
Income tax benefit/(expense)	–	–
Net Loss After Tax	**(39)**	**(1,257)**

1. The consolidated income statement for FY2015 has been presented on a full year basis as Afterpay only began its operations in the second half of FY2015.

The financial information presented in this table is intended as a summary only and should be read in conjunction with the more detailed discussion of the financial information disclosed in Section 4 as well as the key risk factors set out in Section 5.

1.3 Key Strengths

TOPIC	SUMMARY	FOR MORE INFORMATION
Afterpay provides a compelling value proposition to both retail merchants and end-customers	The Afterpay 'buy now, pay later' service helps end-customers and retailers transact online. From an end-customer's perspective, the value proposition includes the following key attributes: • Get desired items now but pay for them later • Paying by instalment makes purchasing items online more flexible • Interest-free, no added upfront transaction costs • Can use any Australian issued MasterCard or Visa credit or debit card to pay their instalments • Do not need to provide extensive personal information that would likely cause delay or distraction from completing a purchase From a retail merchant's perspective, the value proposition includes the following key attributes: • Potential for increased sales from new customers • Potential for increased average order values • No fraud or non-payment risk – Afterpay pays its retail merchant clients upfront • Flexible integration capability with full technical support	**Section 3.4.1**
The Afterpay System is the key product enabler and represents a significant competitive advantage	Afterpay's technology advantage is linked to the Afterpay System and its ability to perform real-time fraud and repayment capability assessments on potential end-customer transactions in a manner that is non-intrusive and not reliant on the end-customer providing extensive personal information (as typically required when applying for a traditional loan or credit card).	**Section 3.4.2**
Afterpay has an attractive business model	Afterpay has an attractive business model, incorporating the following features: • **Scalable, transaction based revenue model** The Afterpay System is scalable and uses the processing capability of Touchcorp, which can handle significant volumes of annual underlying transactions utilising its existing infrastructure if required by Afterpay in the future. • **Efficient utilisation of funding capital** Afterpay employs capital to fund the period between paying its retail merchant clients upfront and the time it takes to recoup full payment from end-customers. The duration of capital employed per transaction is relatively short, with an average historic 29 day instalment repayment period (based on February 2016 monthly unaudited statistics), Past performance, however, is not necessarily an indicator of future performance.	

TOPIC	SUMMARY	FOR MORE INFORMATION
Afterpay has an attractive business model cont.	• **Risk conscious approach to end-customer payment terms** Afterpay adopts a risk conscious approach to providing instalment payment terms to end-customers. The end-customer must specify upfront a debit or credit card that they wish to be charged in the future; meaning that in most cases the end-customer has been pre-vetted in some form by a recognised financial institution. Additionally, average transaction values are relatively low (approximately $150 average for the six month period to 31 December 2015) and instalment payment receivables are therefore highly diversified across the end-customer base. • **No end-customer acquisition or direct marketing cost requirement** Afterpay does not 'buy' the end-customer or directly promote its services to end-customers. Afterpay is promoted by its retail merchant clients on their web sites as a service and sales incentive to end-customers. • **Outsourced technology development and transactional processing** Afterpay has contracted Touchcorp to develop and maintain the Afterpay System as well as perform all continuing development work as it relates to current and future contractually specified Afterpay products. Future technology development work performed by Touchcorp in this regard will be performed at a nil cash cost to Afterpay. Afterpay also outsources the processing of all Afterpay transactions to Touchcorp on its behalf in return for an ongoing transaction fee, which is set on a 'favoured nation' pricing basis relative to Touchcorp's other customers, which include very large consumer facing organisations in Australia and overseas.	Section 3.4.3
Large Market Opportunity	Afterpay's current, in-market product is relevant to most online retail categories and many online service categories where end-customers wish to stagger payments over a relatively short time period without incurring additional upfront transaction costs or entering into a traditional loan agreement.	Section 3.4.4
Strong market positioning and momentum	The Afterpay System was formally commissioned, developed and delivered by Touchcorp, on Afterpay's behalf, in the first half of calendar 2015, during which time the Afterpay product was tested and refined on a handful of retail merchant web sites. By the end of February 2016, Afterpay had made strong progress: • Over 100 retail merchant clients were integrated with Afterpay including 16 integrations in January 2016 and 26 in February 2016 • Underlying sales generated by retail merchant clients to end-customers increased from $0.27m for the month of June 2015 to $2.8m for the month of February 2016 (unaudited). • Over 38,000 unique end-customers had used Afterpay and in February 2016 alone, over 7,500 new end-customers registered and transacted with Afterpay • In the first two months of calendar 2016 returning customers were responsible for approximately 60% of all Afterpay orders.	Section 3.4.5

TOPIC	SUMMARY	FOR MORE INFORMATION
Ability to leverage core technology into potential new product areas	The existing Afterpay System and Afterpay's developing market presence and experience in relation to its current, core product are intended to be utilised to develop new, add-on products such as: • Afterpay In-store: Integration with retail merchant client's Point of Sale capabilities in physical stores to enable end-customers to pay with Afterpay via their mobile devices at the point of sale • Extended Instalment Plans: In the future, Afterpay intends to offer longer duration instalment plans to end-customers through the purchase process, thereby extending its current 8 week product, offering end-customers more flexibility and convenience when using Afterpay. The ability to offer products which include an interest or credit charge component will be subject to Afterpay obtaining all necessary regulatory licences (see Section 3.11). In addition, Afterpay believes that the Afterpay System can be exported to markets outside of Australia. Extended instalment plan products and overseas expansion are not likely to be implemented in the short term (the next 12 months), as Afterpay will prioritise expansion of its current, core product with funds from the Offer.	Section 3.4.6
Experienced Management Team and Board of Directors	Afterpay senior management team, led by Executive Chairman Anthony Eisen and Managing Director Nicholas Molnar, has significant experience in the technology, online commerce and financial services sectors. The Company's broader management team has been instrumental in the success of the business to date and is well placed to execute further on the business' growth strategy.	Section 3.4.7

1.4 Summary of Key Risks

The business, assets and operations of Afterpay are subject to certain risk factors that have the potential to influence operating and financial performance in the future. These risks can impact on the value of an investment in Afterpay's Shares.

The Board aims to manage these risks by carefully planning its activities and implementing mitigating risk control measures. Some risks are unforeseen and so the extent to which these risks can be effectively managed is somewhat limited.

Set out below are specific key risks that the Company is exposed to. Further general risks associated with an investment in Afterpay are outlined in Section 5.2.

TOPIC	SUMMARY	FOR MORE INFORMATION
Loss of key retail merchant relationships	Afterpay depends on continued relationships with its current significant retail merchants clients. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. Afterpay's contracts with retail merchant clients can be terminated for convenience on relatively short notice by either party, and so Afterpay does not have long term contracted revenues.	**5.2.1**
Reliance on arrangements with Touchcorp Limited	Afterpay depends heavily on its arrangements with Touchcorp. These arrangements are primarily governed by the Software Development and Licence Agreement, which sets out both Afterpay's and Touchcorp's ownership rights in relation to the respective business' intellectual property and technology. Afterpay relies on Touchcorp to continue to develop Afterpay's software and systems, provide hardware and support, and to assist with integration of new retail merchants onto the Afterpay system. Afterpay also relies on Touchcorp in relation to the ongoing day-to-day operations of Afterpay's business.	**5.2.2**
Exposure to end-customer bad debts	Afterpay's profitability depends on its ability to put in place and optimise its systems and processes to make accurate real time fraud and repayment capability assessments in connection with the end-customer approval process. Afterpay already has exposure to end-customer bad debts as part of the normal operation of its business (see Section 4.8 for more detail), however excessive exposure to bad debts through customers failing to meet their repayments to Afterpay will materially and adversely impact Afterpay's profitability.	**5.2.3**

TOPIC	SUMMARY	FOR MORE INFORMATION
Additional requirements for capital	As Afterpay's current business grows and new lines of business are developed, Afterpay will require additional funding to support its instalment payments receivables book and working capital. Afterpay intends to seek debt funding in the future to finance a potential expansion of its instalment payments receivables book. There is no assurance such debt facilities will be obtained when required or obtained on reasonable terms, and there is a risk that insufficient debt funding will be available as Afterpay is currently making a net loss, has limited tangible assets that could be offered as security to a lender, and after completion of the Offer some or all of the additional funding capital raised will tend to be converted into end-customer receivables. Further, if Afterpay elected to finance an expansion by way of debt facilities, such facilities would likely introduce financing risks. Maintaining funding ability by delaying the on-boarding of new retail merchants or by adjusting Afterpay's processes so as to approve requests for instalment payment terms only from higher quality end-customers would risk damage to Afterpay's reputation as a reliable source of instalment payment terms to end-customers, which could in turn harm the long term prospects of its business.	5.2.4
Loss of key management personnel	Afterpay's ability to effectively execute its growth strategy depends upon the performance and expertise of its key management personnel. The loss of these key management personnel, or any delay in their replacement, may adversely affect Afterpay's future financial performance.	5.2.5
Failure to increase transaction volumes, end-customer and retail merchant numbers or establish its brand	Afterpay is currently in the early stages of establishing its presence in the Australian market, and its ability to profitably scale its business is heavily reliant on increases in transaction volumes and in its end customer and retail merchant client base to increase revenues and profits. Failure to expand in this way may adversely impact Afterpay's ability to improve its future profitability.	5.2.6
Competitors and new market entrants	Afterpay considers it has a competitive advantage in being one of the first to provide an interest free 'buy now, pay later' service to the Australian retail market. However, there is always a risk of new entrants in the market which may disrupt Afterpay's business and market share.	5.2.7
Failures or disruptions to Afterpay's technology systems and communication networks	Afterpay depends on the constant real-time performance, reliability and availability of its technology system and third-party communication networks. There is a risk that these systems may fail to perform as expected or be adversely impacted by a number of factors, some of which may be outside the control of Afterpay.	5.2.8
Employee recruitment risk and retention	Afterpay's ability to effectively execute its growth strategy depends upon the performance and expertise of its staff. There is a risk that Afterpay may not be able to attract and retain key staff or be able to find effective replacements in a timely manner, recruit suitably qualified and talented staff in a time frame that meets its growth objectives.	5.2.9

TOPIC	SUMMARY	FOR MORE INFORMATION
Compliance with laws, regulations and industry compliance standards	Afterpay is subject to a range of legal and industry compliance requirements that are constantly changing. In addition, there is potential that Afterpay may become subject to additional legal or regulatory requirements if its business, operations, strategy or geographic reach expand in the future.	**5.2.10**
Exposure to potential security breaches and data protection issues	Through the ordinary course of business, Afterpay collects a wide range of confidential information. Cyber-attacks may compromise or breach the technology platform used by Afterpay to protect confidential information.	**5.2.11**
Activities of fraudulent parties	Afterpay is exposed to risks imposed by fraudulent conduct, including the risks associated with ill intentioned customers attempting to circumvent Afterpay's system and fraud and repayment capability assessment decisions. There is a risk that Afterpay and its technology partners such as Touchcorp may be unsuccessful in defeating fraud attempts, resulting in a higher than budgeted cost of fraud and customer non-payment.	**5.2.12**
Protection and ownership of technology and intellectual property	The business of Afterpay depends on its ability to commercially exploit its technology and intellectual property, including its technological systems and data processing algorithms. Afterpay relies on laws relating to trade secrets, copyright and trademarks to assist in protecting its proprietary rights. However, there is a risk that unauthorised use or copying of Afterpay's software, data, specialised technology or platforms will occur.	**5.2.13**
Ability of the Afterpay technology to integrate various retail merchant platforms	Afterpay uses and relies on integration with third party systems and platforms, particularly websites and other retail merchant systems. The success of Afterpay's services, and its ability to attract additional end-customers and retail merchant clients, depends on the ability of its technology and systems to integrate into and operate with various third party systems and platforms.	**5.2.14**
Afterpay technology may be superseded by other technology or changes in business practice	Afterpay participates in a competitive environment. IT systems are continuing to develop and are subject to rapid change, while business practices continue to evolve. Afterpay's success will in part depend on its ability to offer services and systems that remain current with the continuing changes in technology, evolving industry standards and changing consumer preferences.	**5.2.15**
Government regulation and legal requirements	Afterpay is subject to Anti-Money Laundering/Counter Terrorism Financing Act in relation to merchant customers. Outside of this Afterpay is not currently subject to any other specific laws or regulations other than the laws and regulations applicable to business generally. There is a risk that a number of laws and regulations may be adopted with respect to Afterpay's operations covering issues such as user privacy, pricing, the content and quality of products and services, intellectual property rights and information security which could limit the proposed scope of activities of Afterpay.	**5.2.16**

TOPIC	SUMMARY	FOR MORE INFORMATION
Capacity constraints	Continued increases in transaction volumes may require Afterpay to expand and adapt its network infrastructure to avoid interruptions to Afterpay's systems and technology. Any unprecedented transaction volumes may cause interruptions to Afterpay's systems and technology, reduce the number of completed transactions, increase expenses, and reduce the level of consumer service, and these factors may potentially adversely impact Afterpay's financial performance.	**5.2.17**
Reliance on internet	Afterpay will depend on the ability of its merchants and customers to access the internet. Should access to the internet be disrupted or restricted, usage of Afterpay's services may be adversely impacted.	**5.2.18**
Banking performance	Afterpay relies on online payment gateways, banking and financial institutions for the validation of bank cards, settlement and collection of payments. Any failures or disruptions to such platforms and technology may impact the financial performance of Afterpay.	**5.2.19**
Afterpay may suffer reputational damage	Maintaining the strength of Afterpay's reputation is important to retaining and increasing its end-customer base and its retail merchant base, maintaining its relationships with partner companies and successfully implementing Afterpay's business strategy. There is a risk that unforeseen issues or events may adversely impact Afterpay's reputation. This may adversely impact the future growth and profitability of Afterpay.	**5.2.20**
Exposure to adverse macroeconomic conditions	Afterpay's business depends on end-customers transacting with retail merchants and having access to capital at a reasonable cost, which in turn can be affected by changes in general economic conditions. This may subsequently impact Afterpay's ability to generate revenue and profits.	**5.2.21**
Concentration of shareholding	After the Offer is completed, the existing major Shareholders in Afterpay will hold approximately 60.6% of the total shares on issue in Afterpay and will continue to be able to exert significant influence over Afterpay, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters submitted to the vote of shareholders.	**5.2.22**
Risk of litigation, claims and disputes	Afterpay may be subject to litigation and other claims and disputes in the course of its business. There is a risk that such litigation, claims and disputes could materially and adversely impact Afterpay's operating and financial performance and affect Afterpay's reputation.	**5.2.23**

1.5 Key Offer Statistics

Offer Price per New Share	$1.00
Total number of New Shares to be issued under the Offer	25 million
Total number of Existing Shares prior to the Offer	140 million
Total number of Shares on issue on Completion of the Offer (1)	165 million
Market capitalisation at the Offer Price (2)	$165 million
Number of Options on issue (3)	14,475,000

(1) The total number of Shares on issue on Completion of the Offer includes:

– 140,000,000 Shares held by Existing Shareholders that will be subject to escrow arrangements for various periods as described further in Section 9.5; and

– 25,000,000 Shares, including all New Shares issued under the Offer, that are not the subject of any escrow agreements.

(2) Calculated as the total number of Shares on issue following the Offer multiplied by the Offer Price

(3) Details of the Options on issue are set out in Section 6.7

How to invest

Applications for New Shares can only be made by completing and lodging an Application Form contained in this Prospectus. Instructions on how to apply are set out in Sections 7.10, 7.11 and 7.12 and on the back of the Application Form. Applications must be for at least 2,000 New Shares and in multiples of 1,000 thereafter.

1.6 Directors and Key Management

TOPIC	SUMMARY	FOR MORE INFORMATION
Who are the Directors and key executives of Afterpay?	**Board of Directors** • Anthony Eisen – Executive Chairman • Nicholas Molnar – Managing Director • Michael Jefferies – Non-executive Director • David Hancock – Independent, Non-executive Director • Clifford Rosenberg – Independent, Non-Executive Director **Senior Leadership Team** • Anthony Eisen – Executive Chairman • Nicholas Molnar – Managing Director • Richard Harris – Chief Finance & Risk Officer • David Whiteman – Director of Product • Fabio de Carvalho – Director of Strategic Partnerships • Paz Vlahodimos – Head of Finance and Administration • Sophie Karzis – Company Secretary	**Section 6.1 & 6.2**

1.7 Interests, benefits and related party transactions

TOPIC	SUMMARY	FOR MORE INFORMATION
Who are the existing Shareholders of Afterpay at the Prospectus date and what will be their interest in Afterpay at Completion of the Offer?	(see table below)	**Section 7.6**

Existing Shareholder	Shares at Prospectus Date	New Shares issued	Shareholding following Completion of the Offer	% post-IPO
Touchcorp entity*	50,000,000		50,000,000	30.3%
Anthony Eisen associated entity*	25,000,000		25,000,000	15.2%
Nicholas Molnar associated entity*	25,000,000		25,000,000	15.2%
Other Directors*	3,750,000		3,750,000	2.3%
Other Existing Shareholders*	36,250,000		36,250,000	22.0%
New Shares to be issued under the Offer	Nil	25,000,000	25,000,000	15.2%
Total	**140,000,000**		**165,000,000**	**100.00**

* Shareholdings subject to escrow

TOPIC	SUMMARY	FOR MORE INFORMATION
What significant benefits and interests are payable to Directors and other persons connected with Afterpay or the Offer?	(see table and text below)	**Section 6.5.4**

Director	Shares held on Completion	% post-IPO	Options held on Completion
Anthony Eisen	25,000,000	15.2%	1,500,000
Michael Jefferies(1)	250,000	0.2%	200,000
Nicholas Molnar(2)	25,000,000	15.2%	1,500,000
David Hancock(3)	2,500,000	1.5%	200,000
Clifford Rosenberg(4)	1,000,000	0.6%	900,000

The above table does not take into account any New Shares the Directors may acquire under the Offer. Directors are entitled to remuneration and fees on commercial terms.

Notes:

1. 250,000 Shares are held by Michael and Julie Jefferies as trustees for The Jefferies Super Fund, in which Michael Jefferies and his wife, Julie Jefferies, are beneficiaries.
2. 25,000,000 Shares are held by Nicholas Molnar Pty Ltd as trustee for Nicholas David Family Trust, in which Nicholas Molnar is a beneficiary.
3. 2,500,000 Shares are held by David Hancock's wife, Fiona Kate Hancock.
4. 1,000,000 Shares are held by Clifro Pty Ltd as trustee for Cliffro Trust, in which Clifford Rosenberg is a beneficiary.

Directors' interests and remuneration are set out in more detail in Section 6.5.

Advisers and other service providers are entitled to fees for services as disclosed in Section 6.4.

TOPIC	SUMMARY	FOR MORE INFORMATION
What Share escrow arrangements are in place?	Certain Shareholders and Optionholders have entered into escrow arrangements under which they will be restricted from dealing with the escrowed shares and options they hold on Completion of the Offer until the expiration of the relevant escrow period. An "escrow" is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to any exceptions in the escrow arrangement. However, the restriction does not extend to any voting rights attached to the Shares. It is estimated that 140,000,000 Shares will be subject to escrow arrangements: • 103,750,000 Shares until 24 months from the date of admission to the ASX • 36,250,000 Shares until 1 March 2017 It is estimated that 4,300,000 options will be subject to escrow arrangements until 24 months from the date of admission to the ASX. The Company will announce to the ASX full details (quantity and duration) of the Shares held in escrow prior to the Shares commencing trading on ASX.	**Section 9.5**

1.8 Summary of the Offer

TOPIC	SUMMARY	FOR MORE INFORMATION
Who is the issuer of the Prospectus?	**Afterpay Holdings Limited ACN 606 589 520**	**Important Information**
What is the Offer?	Afterpay is offering to issue 25 million New Shares at $1.00 per New Share to raise gross proceeds of $25 million (before costs and expenses). All New Shares issued pursuant to this Prospectus will, from the time they are issued, rank equally with all Existing Shares. The Offer (other than the Institutional Offer) is to be conducted in Australia and only residents of Australia are eligible to participate in the Offer. The Institutional Offer is being extended to Australia and certain other eligible jurisdictions. Bell Potter Securities Limited and Wilson HTM are acting as Joint Lead Managers and Underwriters to the Offer.	**Section 7.1**
How is the Offer structured?	The Offer comprises: • The Broker Firm Offer • The Institutional Offer, which consists of an invitation to acquire New Shares made to Institutional Investors in Australia and certain other eligible jurisdictions • The General Offer	**Section 7.2**
How will the proceeds of the Offer be used?	The proceeds of the Offer will provide Afterpay with: • Increased funding capital to grow the end-customer instalment payment related activities of its business and to support external sources of finance (when secured), in relation to this activity, that may be obtained in the future • Increased working capital to accelerate the development of Afterpay's retail merchant client base and end-customer product offering including funding for product development, marketing, sales and general business overhead • Pay the costs of the Offer	**Section 7.4**
Will the Shares be listed?	Afterpay will apply to the ASX for admission to the Official List and for official quotation of shares under the code AFY. Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	**Section 7.9**
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Joint Lead Managers, subject to the terms of the Underwriting Agreement.	**Section 9.2.2**
What is the allocation policy?	The allocation of New Shares between the General Offer, Broker Firm Offer and the Institutional Offer will be determined by the Joint Lead Managers and Afterpay having regard to the allocation policy outlined in Section 7.10, 7.11 and 7.12. With respect to the Broker Firm Offer, it will be a matter for the Brokers as to how they allocate New Shares among their retail clients.	**Section 7.10.4, 7.11.2 and 7.12.4**

TOPIC	SUMMARY	FOR MORE INFORMATION
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of New Shares under the Offer.	**Section 7.9**
What are the tax implications of investing in the New Shares?	An overview of the Australian tax treatment for Australian tax resident investors is included in Section 9.7. The tax consequences of any investment in the New Shares will depend upon any investor's particular circumstances, particularly for non-resident Shareholders. Applicants should obtain their own tax advice prior to deciding whether to invest.	**Section 9.7**
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or around 4 May 2016.	**Section 7.9**
What is Afterpay's dividend policy?	The payment of dividends by the Company, if any, subject to law, is at the complete discretion of the Directors, and the Directors do not provide any assurance of the future level of dividends and the level of franking of such dividends. The ability to pay dividends will depend on a number of factors, many of which are beyond the control of the Company. In determining whether to declare future dividends, the Directors will have regard to Afterpay's earnings, overall financial condition, capital requirements and the level of franking credits available. It is intended no dividend will be paid following Listing in respect of the 2016 fiscal year.	**Section 4.7**
How can I apply?	You may apply for New Shares by completing a valid Application Form (attached to or accompanying this Prospectus). To the extent permissible by law, an Application by an Applicant under the Offer is irrevocable.	**Section 7.10, 7.11 and 7.12**
Can the Offer be withdrawn?	Afterpay reserves the right not to proceed with the Offer at any time before the issue of New Shares to successful Applicants. If the Offer does not proceed, the Share Registry, your Broker or Afterpay will refund Application Monies. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	**Section 7.14**
Where can I find more information?	Call the Afterpay Information Line on 1300 378 930 (from within Australia) between 9:00am and 5:00pm Melbourne time if you require assistance to complete the Application Form, require additional copies of this Prospectus or have any questions in relation to the Offer. If you are unclear in relation to any matter or are uncertain as to whether obtaining New Shares in Afterpay is a suitable investment for you, you should seek professional advice from your solicitor, stockbroker, tax adviser, accountant or other independent and qualified professional adviser before deciding whether or not to invest.	**Section 7.9**

02 Industry Overview

02. Industry Overview

Afterpay is a technology driven payments company based in Australia.

The Afterpay solution currently allows Australian retail merchants to provide end-customers with the ability to 'buy now and pay later' without taking out a traditional loan or paying any upfront fees or interest.

These retail merchants are exposed to the Australian online retail market and in particular the dynamics associated with retail sales which are conducted online.

2.1 Australian Retail Market

The Australian retail market as measured by the Australian Bureau of Statistics (ABS) is approximately A$293 billion[1] for the 12 months to January 2016. This comprises a number of key sectors:

Food retailing and food services	$160 billion
Household goods	$52 billion
Clothing, footwear and personal accessories	$23 billion
Deportment stores	$19 billion

Growth over this 12 month period was 4.3% over the previous corresponding period.

In addition to these sectors, there are other large consumer facing sectors which are driven by consumer demand. These include travel services and consumer sales by utilities and telecommunication companies A$17.6 billion.[2]

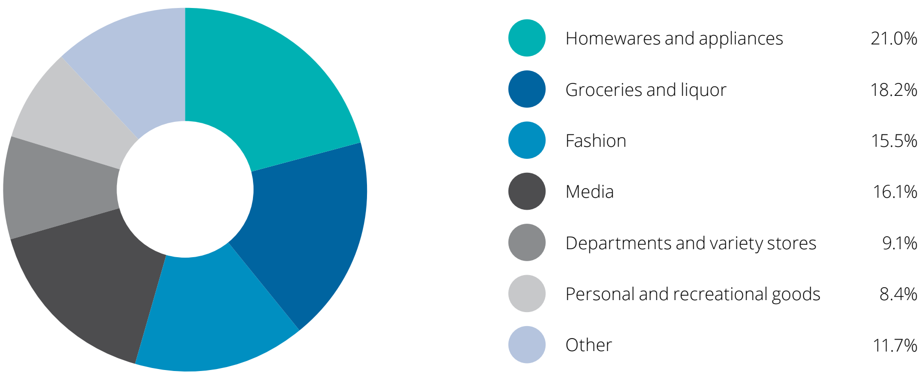
2.2 Australian online economy

Australia is one of the leading nations in terms of internet penetration as a proportion of the total population (90% penetration). Ranked on internet users as a percentage of total population, Australia has the 5th highest level of internet penetration in the world.[3]

In addition, Australians have shifted a significant proportion of their retail spending to online retailers. This is occurring through pureplay online merchants and also through retail merchants which operate multi-channel operations. NAB estimated (in dollar terms) that Australians spent $19.1 billion on online retail in the 12 months to December 2015, equivalent to 6.5% of traditional, in-store retail sales in the same period.[4]

The largest categories of online retail spend:[5]

Online Retail Spend



1. Australian Bureau of Statistic, Retail Trade January 2016
2. The 12 months to December 2015, Australian Bureau of Statistic, Retail Trade January 2016
3. Page 2, The Australian online Consumer Landscape, March 2012, The Neilsen Company
4. NAB Online Retail Sales Index In Depth Report, December 2015
5. Page 5,NAB Online Retail Sales Index In Depth Report, December 2015

Growth in online sales continues to track well in excess of the broader retail market. Online sales growth is estimated to be 10.6% per annum (12 months to January 2016)[6] compared to 4.3% per annum in traditional retail sales. The majority of these sales (approximately 80%[7]) is generated by domestic retailers which are delivering revenue growth of 15.4% per annum.[8]

Hand in hand with this migration to online sales has been the proliferation of retail merchants with an online presence.

According to IBIS World there are 49,760 domestic online merchants in Australia. The two largest retailers are Wesfarmers and Woolworths. Wesfarmers is a diversified company that owns several large retailers including Coles supermarkets, Kmart, Target and Officeworks. Woolworths owns Woolworths supermarkets, Big W, and Dan Murphy's. In aggregate these two merchants generate approximately 22% of Australian online sales through their multi-channel sales presence.[9]

Notwithstanding this large market share controlled by Wesfarmers and Woolworths, the online retail market remains highly fragmented with companies such as Apple (Australia) estimated at having less than 1% market shares.[10]

NAB estimates 37% of all online retail sales are from smaller online retailers. This segment grew 12.3% in calendar 2015.[11]

2.3 Consumer finance sector

Afterpay provides a service and software infrastructure that allows its retail merchant clients to offer end-customers the ability to buy goods and services on their web sites on a 'buy now, pay later' basis. The end-customer transacts with Afterpay using their credit or debit card to facilitate payment over four instalments. As such, Afterpay provides a service to end-customers with consumer finance attributes, albeit end-customers are not charged interest or account establishment or membership fees.

It is estimated that the Australian finance market will generate $190.3bn of revenue in FY16 and will grow by 8.3% p.a. to $284bn in FY21[12]. The major Australian banks Westpac, CBA, NAB and ANZ continue to dominate; collectively accounting for 78% of the market.

The consumer finance market is estimated to generate revenue of $54bn in FY16 equating to 28.3% of the total revenue in the Australian finance market[13]. The consumer finance market includes credit cards, personal loans and margin loans.

In addition to the major banks there are a number of other providers of consumer financing including other ADIs including smaller banks and credit unions, leasing companies and retail finance companies, and alternative lenders such as peer to peer lenders and payday lenders.

Credit and debit cards

In 2015 there were 530 million combined credit and debit card transactions per month in Australia; comprised of 351 million debit card transactions and 179 million credit card transactions. The total volume of card transactions has doubled since 2008, including a 141% increase in debit card transactions.[14]

The revenue generated from the credit card market in Australia has grown over the past decade to approximately $10.7 billion and is expected to continue to grow at an annualised rate of 2.5% per annum for the next five years. The credit card market has been positively impacted by increasing levels of online retail with the Australian Card and Payment Association (APCA) reporting that nearly 40% of credit card transactions already occur in card not present environment.[15]

6. Page 2, NAB Online Retails Sales Index Monthly Update January 2016
7. Page 12, NAB Online Retail Sales Index In Depth Report, December 2015
8. Page 5, NAB Online Retail Sales Index In Depth Report, December 2015
9. IBISWorld Online Shopping in Australia July 2015
10. IBISWorld Online Shopping in Australia July 2015
11. Page 5, NAB Online Retail Sales Index In Depth Report, December 2015
12. IBISWorld Industry Report Finance in Australia January 2016
13. IBISWorld Industry Report Finance in Australia January 2016
14. Australian Payments Clearing Association Website www.apca.com.au
15. Australian Payments Clearing Association Website www.apca.com Annual review 2015 page 4

Also relevant to Afterpay is the increasing use of debit cards which allow end-customers to access their bank accounts rather than increase personal indebtedness. According to IBISWorld "since the introduction of Visa and MasterCard debit cards, consumers have gradually made more transactions on debit rather than credit. Debit card transactions as a proportion of total card payment transactions have risen from 34.2% to 42.5% over the five years through 2014-15.[16]

2.4 Australian Competitive Landscape and Afterpay's product differentiation

The Afterpay solution allows for the end-customer to 'buy now and pay later' without taking out a traditional loan or paying any interest, establishment or maintenance fees.

Management considers this to be a key point of differentiation because many other consumer finance services incorporate interest payments or fees levied on the end-customer, whereas the primary Afterpay revenue driver is merchant fees levied on the retail merchant client.

Other business model differences are also relevant, including the fact that Afterpay is currently focused on:

- Online retail product sales
- Delivering its service in real-time in an integrated and simple format
- Low average transaction values
- Short term instalment payment terms
- Applying a technology driven approach to transaction integrity and performing real-time fraud and end-customer repayment capability checks

Furthermore, Afterpay's existing products do not seek to replace the usage of credit cards or debit cards but rather incorporate existing payment methods into its end-customer value-proposition and service.

Notwithstanding the above points of differentiation, the consumer finance industry in Australia is highly competitive and is comprised of a number of very substantial and mature companies that have significantly more resources and market presence in comparison to Afterpay, which is a recently established company without a substantial end-customer base or track-record. These companies include major Australian Banks, both national and regional, and a large number of other non-bank financial institutions.

A number of well established retail finance companies are focused on providing credit at the point of sale. These companies include Latitude Financial Services (acquired GE Capital's Australian and New Zealand consumer finance business in 2015 for over $8 billion), HSBC Bank and FlexiGroup (which is listed on the ASX with a current market capitalisation in excess of $900 million). These companies offer a wide range of consumer finance related products including interest free offers. Such offers can be accessed by end-customers both in-store and via the internet.

There are, however, only a small number of known players in Australia and overseas that are focused on Afterpay's target market of online retailers and embedding an end-customer offer within the product pages of merchant websites and providing real-time transaction integrity checks and processing. These known players have products that exhibit varying degrees of similarity to Afterpay's product profile and product delivery process. These include:

- International companies – Klarna; Afterpay Europe (acquired by Bertelsmann); PayPal Credit (formerly Bill Me Later) and Affirm
- Domestic companies – Zip Money and Touch Payments

Some of the above international companies are building a strong market presence in their respective overseas markets and appear well-resourced from a financial and technical perspective. These companies could potentially target the Australian market in the future.

The domestic companies are deploying products with a number of similar characteristics to Afterpay's product offering and have attracted third party capital to develop their market positioning. It is also possible that the larger, traditional domestic retail finance companies may attempt to introduce new products to compete with Afterpay in the future.

16. IBIS World Credit Card Issuance in Australia p8

The market for online customer funding and financing products is developing rapidly, and competitors can and do change their product features in response to merchant and customer preferences and to the actions of competitors. In the recent past Afterpay could differentiate its product offering from those of certain domestic competitors by not charging end-customers any account keeping or similar fees and by virtue of its product delivery process. However, Afterpay will have to continually innovate its technology and processes, and improve its product offering to end-customers and services to merchants, in order to have and maintain a competitive advantage. It may not always be possible to establish a material differentiation of the Afterpay product from those of the Company's competitors, some of whom are able to quickly change their product features.

Afterpay believes that its continuous profiling of end-customers and accumulation of related data provides a competitive advantage in the Australian market. Prospective new entrants into the Australian market may require technological adaption of their existing systems and material volumes of transaction data to replicate this capability.

At the retail merchant level, Afterpay aims to differentiate its service offering by seeking to make it quick and easy to integrate with the merchant's online store. Afterpay's relationship with Touchcorp as a service provider assists in this regard.

Further, Afterpay believes that the 'favoured nation' pricing which it enjoys with Touchcorp for transaction processing (see Section 3.4.2) provides an additional source of competitive advantage (particularly in regard to domestic competitors) from a cost perspective, which may be difficult to replicate. If this advantage can be maintained then it could allow Afterpay to differentiate its products by having lower fees for retail merchants. However, Afterpay is not aware of the cost structures of its competitors and it is not clear if this is a sustainable advantage.

03 Business Overview

3.1 Afterpay Opportunity

The founders of Afterpay, coming from both online commerce and Australian regulated finance industry backgrounds, believe that three different, but highly related, realities remain prevalent in Australian online retail commerce:

- Online retail merchants are always endeavouring to attract more end-customers and convert 'browsers' to 'buyers'
- Retail merchants want partners in payments, products and services
- Traditional short term consumer finance products are not generally end-customer friendly and have not been effectively structured or well-integrated to facilitate online commerce

The founders of Afterpay also observed that many short or medium term consumer finance products may not offer end-customers a good experience, due to one or more of the following reasons:

- Expensive (high interest and/or other charges)
- Not available in real-time (subject to deferred approval)
- Require membership or lock-ins (e.g. end-customers need to sign up to a new credit card)
- Often require the provision of extensive personal information
- Not well integrated into a retailer's product offering
- Designed to be a finance business in itself rather than a 'service' to facilitate retail commerce

Afterpay believes that there is growing end-customer scepticism and wariness towards traditional short term consumer finance products.

While credit card usage and indebtedness remains high and is growing in Australia – and some overseas markets – proportionally the adoption of credit cards as a method of payment is declining. While also not a new concept, the 'pay-by instalment' method of repayment is known to be an effective way for end-customers to fully repay short term instalment amounts, as opposed to subsisting on perennially indebted credit cards or personal loans.

Understanding that technology could have a large-scale impact on improving the way end-customers obtain short term payment terms to better manage their purchasing requirements, and observing recent developments in this regard in some overseas markets, the founders of Afterpay set-about developing a technology based company that was well suited to the Australian online retail and regulatory environment as well as being exportable to other markets.

Working in close collaboration with its technology development partner, Touchcorp, who has specialist knowledge, experience and success in developing transaction integrity digital services for large consumer-facing organisations in Australia and overseas, Afterpay evaluated the market opportunity, the parameters of the Afterpay System and the design of its current product during calendar 2014.

3.2 Afterpay Beginning

The Afterpay System was formally commissioned, developed and delivered by Touchcorp, on Afterpay's behalf, in the first half of calendar 2015, during which time the Afterpay product was tested and refined on a handful of retail merchant web sites.

Afterpay received $8 million of equity funding commitments from sophisticated private investors in July and August 2015. Following the completion of the equity raising process, Afterpay commenced commercialisation of its current products.

Afterpay also continued to recruit key employees over this period.

03. Business Overview

3.3 Overview of Afterpay

Afterpay is a technology driven payments company.

Afterpay provides a service and software infrastructure that allows its retail merchant clients to offer their end-customers the ability to buy goods and services on their web sites on a 'buy now, pay later' basis without the end-customer having to:

- Apply for or enter into a traditional loan or credit card product
- Pay any additional amount (by way of interest, or upfront fees) for the merchant's goods and services
- Provide extensive personal information that would likely cause delay or failure to complete a purchase

Instalment payment terms are presented to end-customers for a maximum of 56 days. The purchase value is recouped by Afterpay from the end-customer usually in four equal, fortnightly instalments.

Retail merchants benefit from providing the Afterpay service to its end-customers because:

- A proportion of end-customers are more inclined to make a purchase and/or will increase the value of their purchase because of the affordability and flexibility attributes of the Afterpay service
- Afterpay pays the retail merchant upfront and assumes all end-customer non-payment risks

What Does Afterpay Do

1. Afterpay integrates directly into Merchant websites
2. Merchants then offer their products to their end-customers with a BUY NOW / PAY LATER offer
3. The Buy Now / PAY LATER offer is simple
   - End-customers pay for the items in four fortnightly instalments
   - Interest-free
   - No additional information required at checkout
4. Afterpay settles with Merchant upfront (less Afterpay fee)
5. Afterpay retrieves funds from end-customers through an automated end-to-end process

3.4 Key Strengths of Afterpay

3.4.1 Compelling value proposition to both retail merchants and end-customers

The Afterpay 'buy now, pay later' service helps end-customers and retailer merchants transact online.

From an end-customer's perspective, the value proposition includes the following key attributes:

- Get desired items now but pay for them later
- Paying by instalment makes purchasing items online more affordable and flexible
- Interest-free, no added upfront transaction costs
- Can use any Australian issued MasterCard or Visa credit or debit card to pay their instalments

- Do not need to provide extensive personal information that would likely cause delay or distraction from completing a purchase

From a retail merchant's perspective, the value proposition includes the following key attributes:

- Potential for increased sales from new end-customers
- Potential for increased average order values
- No fraud or non-payment risk – Afterpay pays its retail merchant clients upfront
- Flexible integration capability with full technical support

Afterpay can be integrated into a retail merchant's existing e-commerce infrastructure and sits alongside traditional end-customer payment options. In the future, Afterpay intends to utilise the Afterpay System to provide its retail merchant clients with information in relation to their customer base to allow them to refine product offerings, conduct marketing activities and generally drive more sales.

3.4.2 The Afterpay System represents a significant competitive advantage

Afterpay is able to provide a compelling and cost-efficient value proposition to its retail merchant clients and their end-customers alike because of its technology, which provides Afterpay with a substantial competitive advantage.

Afterpay's technology platform (the Afterpay System) comprises two key components:

- The Transaction Integrity Engine
- The Afterpay Operating Platform

At the core of the Afterpay System is its Transaction Integrity Engine, which conducts end-customer fraud and repayment capability assessments in real-time, allowing Afterpay to make real-time, automated decisions as to whether or not to provide instalment payment terms to any potential end-customer.

The Transaction Integrity Engine is activated every time an end-customer selects Afterpay as the payment method for a purchase from a retail merchant. The screenshots in Section 3.5 below give a step by step illustration of how the process typically works on a merchant's website.

Selecting Afterpay as the payment method does not automatically guarantee that the payment will be approved. By integrating Afterpay into the merchant's website, the approval request is automatically passed online to the Transaction Integrity Engine for real time processing. Afterpay's systems will then:

- Check the validity of the end-customer's credit card or debit card. It will do this for a new first-time user by attempting to charge the first of four instalments to the card. For a returning end-customer, the first instalment is not charged to the card up front, but the system will attempt to pre-authorise some portion of the order value to the card to ensure it is still valid. The pre-authorisation is then cancelled immediately once the validity of the card is established.
- Assess the payment request. The system uses a range of attributes relating to the particular transaction, the end-customer and his or her payment history and current amounts outstanding, the merchant, and other factors that can be garnered directly from the particular transaction and payment request. The relevance and weighting given to the different factors is constantly being updated based on accumulated transaction data across the Afterpay platform, and this proprietary database of inputs is a key element of the value of the Afterpay System. The analysis is performed automatically and in real time by the system, and does not involve any external checking of credit reporting agencies. This is further discussed in Section 3.6.
- Notify the outcome. Based on the analysis performed by the system and the assessed risk of the payment request, the Afterpay system will automatically notify the end-customer and the retail merchant whether the purchase has been approved or rejected.
- Payment. If the purchase is approved, the merchant will proceed to arrange delivery of the goods to the end-customer and Afterpay will pay the purchase price, less the Merchant Fee, to the merchant. Afterpay will then recover the original purchase price from the end-customer in the agreed instalments.

Undertaking this assessment based only on the factors available to the system in real time and with limited inputs does involve some degree of risk of fraud or non-payment by the end-customer. Afterpay has designed the system with the intention that these risks will diminish over time as the Transaction Integrity

Engine and the rules it applies become more effective at minimising these risks. However, the risk of both fraud and non-payment cannot be entirely eliminated if transactions are to be undertaken in a commercial volume, and there will always be a component of bad debt expenses applicable to Afterpay's results. These kinds of transaction losses should be seen as a normal cost of doing business for the Company (see Sections 4.3.2 and 4.8 for details based on historical financial performance). From a business model perspective the Transaction Integrity Engine is a significant competitive advantage because it allows Afterpay to minimise end-customer transaction losses and maintain competitive pricing for retail merchant clients.

The Transaction Integrity Engine also allows Afterpay to conduct continuous profiling of end-customers that interact with the Afterpay System. This is expected to provide commercially valuable insights to both Afterpay and a range of stakeholders, including Afterpay's retail merchant clients, from which targeted marketing campaigns and/or cross-promotional activities may be conducted in the future.

Afterpay has also developed an end-to-end, largely automated, operating platform (the Afterpay Operating Platform) that allows retail merchants to integrate, manage and monitor the way Afterpay is performing on their web sites and for end-customers to monitor and manage their Afterpay transactions and accounts.

Afterpay's technology was built and continues to be developed by Touchcorp Limited (Touchcorp), an ASX publicly listed company, under a Software Development and Licence Agreement. Touchcorp has extensive experience in Australian and international markets in relation to providing payments related services to large consumer facing organisations.

Afterpay also outsources the processing of all Afterpay transactions to Touchcorp on its behalf in return for an ongoing transaction fee, which is set on a 'favoured nation' pricing basis relative to Touchcorp's other customers, which include very large consumer facing organisations in Australia and overseas.

Afterpay and Touchcorp maintain the highest level of transaction security as per the Payment Card Industry Data Security Standards (PCI DSS).

The SDLA establishes a Steering Committee to give directions to Touchcorp regarding the ongoing modification and development of the Afterpay System. The Steering Committee is comprised of two members from each of Afterpay and Touchcorp. Each member has one vote on decisions made by the Steering Committee, with Afterpay able to appoint the Chairperson of the Steering Committee who will have a casting vote in the event of a deadlock.

Touchcorp is a substantial shareholder in Afterpay (approximately 36% prior to the Offer).

3.4.3 An attractive business model

Afterpay has an attractive business model, incorporating the following features:

- **Scalable, transaction based revenue model**

  Afterpay receives its revenue primarily from transaction fees paid by its retail merchant clients (Merchant Fees) in relation to underlying Afterpay sales on their web sites.

  Merchant Fees are generated on each discrete, approved order placed by the end-customer through the Afterpay system. Merchant Fees are predominantly based on a percentage of the end-customer order value plus a fixed per transaction fee. Merchant Fees represent approximately 83% of Afterpay's revenues for the six month period ending 31 December 2015.

  Increasing Merchant Fees are a function of the number of Afterpay retail merchant clients that provide the Afterpay service to their end-customers as well as the proportion of end-customers associated with each retail merchant client that choose to use Afterpay as a method of online payment. Seasonality will also impact Afterpay transaction revenue in any given period, which is a function of consumer buying patterns at different times of the calendar year.

  The Afterpay system is scalable and uses the processing capability of Touchcorp, which can handle significant volumes of annual underlying transactions utilising its existing infrastructure if required by Afterpay in the future.

- **Efficient utilisation of funding capital**

  Afterpay employs capital to fund the period between paying its retail merchant clients upfront and the time it takes to recoup full payment from the end-customer. Afterpay aims to fully recoup the value of any discrete transaction within a maximum of 56 days.

  The average duration to recoup end-customer payments in the month of February 2016 (unaudited) was approximately 29 days. Past performance, however, is not necessarily an indicator of future performance.

- **Risk conscious approach to end-customer payment terms**

  Afterpay adopts a risk conscious approach to extending instalment payment terms to end-customers. This approach manages Afterpay's bad debt risk profile through a combination of current product features and technology application:

  - Product features:
    - Instalment payment terms are extended to end-customers for a relatively short duration (maximum 56 days)
    - Low transaction values (average transaction values to date are in the order of $150)
    - The end-customer must specify upfront an Australian issued MasterCard or Visa debit or credit card that they wish to be charged in the future; meaning that in most cases the end-customer has been pre-vetted in some form by a recognised financial institution
  - Technology Application:
    - Real time fraud and end-customer repayment capability assessment – every Afterpay attempted transaction is reviewed by Afterpay's Transaction Integrity Engine in real-time
    - Managing and collecting late payments – Afterpay has a multi-faceted, largely automated collections process
    - Dynamic and continuous profiling of end-customers – end-customers are continuously being evaluated based on their transaction and repayment history as well as other data points garnered from the online environment

- **No end-customer acquisition or direct marketing cost requirement**

  Afterpay does not 'buy' the end-customer or directly promote its services to end-customers.

  Afterpay is promoted by its retail merchant clients on their web sites as a service and sales incentive to end-customers. Once an end-customer uses Afterpay for the first time they become an Afterpay registered member. Thereafter, registered Afterpay members can continue to utilise the Afterpay service on the same merchant web site or any other web site that features the Afterpay service.

- **Outsourced technology development and transactional processing**

  Afterpay has contracted Touchcorp to develop and maintain the Afterpay System as well as perform all continuing development work as it relates to current and future contractually specified Afterpay products. Afterpay also outsources the processing of all Afterpay transactions to Touchcorp on its behalf in return for an ongoing transaction fee.

  Afterpay's relationship with Touchcorp has several business model advantages:

  - There is no future cash cost to Afterpay in relation to contractually specified future product development. Afterpay paid a Development Fee to Touchcorp in 2015 comprising a one-off $3 million cash payment and 50 million shares in Afterpay
  - Ongoing transaction processing costs paid by Afterpay to Touchcorp are set on a 'favoured nation' pricing basis, relative to Touchcorp's other customers, which include very large consumer facing organisations in Australia and overseas. This arrangement allows Afterpay to leverage the considerable scale benefits already achieved by Touchcorp. Touchcorp processed over $5 billion worth of transactions in calendar 2015

3.4.4 Large Market Opportunity

Afterpay's current, in-market product is relevant to most online retail categories and many service categories where end-customers wish to stagger payments over a relatively short time period without incurring additional costs or entering into a traditional loan.

Currently, Afterpay processes orders up to $1,500 for end-customers paying with a credit card and $500 for those paying with a debit card. There is no minimum order amount and each retail merchant determines their minimum thresholds.

Afterpay only offers its products to consumers 18 years old and above. While Afterpay provides a valuable service to all Australia consumers, its core target market is Millennials (aged 18-35) and skews female. Based on Afterpay's experience to date and end-customer anecdotal feedback, this end-customer group is particularly receptive to Afterpay due to their dissatisfaction with traditional short term consumer finance products and comfort in purchasing frequently online.

Afterpay has a strong pipeline of opportunities to on-board new retail merchant clients.

Additionally, many service categories (such as energy and telecommunications) where end-customers wish to make deferred instalment payments over a relatively short time period without incurring additional transaction costs or entering into a loan agreement are natural verticals for Afterpay to progressively introduce their service.

Validating the cross-over potential into new verticals, since February 2016 the Afterpay service has been featured on the Optus web site in relation to outright sales of mobile telephones as well as other Optus products.

Following deeper penetration of the Australian market, Afterpay also intends to expand its current product into overseas markets. The timing of any overseas expansion is uncertain as it would depend on the initial success of the Australian market strategy (which is a priority for Afterpay), and no such expansion is currently being undertaken. Overseas expansion would involve certain barriers to entry that Afterpay would need to deal with, including new regulatory requirements, differentiation from existing competitors in those markets, having sufficient access to funding and capital, and potentially having to update or modify its technology and processes to handle different commercial and retail practices.

3.4.5 Strong market positioning and momentum

Afterpay is an early stage company that is experiencing rapid growth.

The Afterpay System was formally commissioned, developed and delivered by Touchcorp, on Afterpay's behalf, in the first half of calendar 2015, during which time the Afterpay product was tested and refined on a handful of retail merchant web sites.

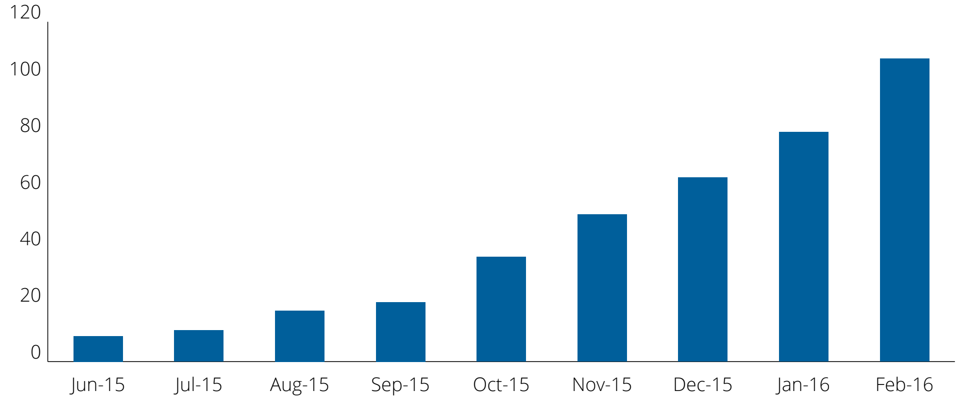
Since mid-2015, Afterpay has made strong progress in relation to developing its business:

Retail Merchants

By 29 February 2016, Afterpay had integrated and transacted through over 100 online retail merchants. Afterpay completed 16 integrations in January 2016 and 26 in February 2016.

While the number of retail merchants adopting the Afterpay service is important, also of importance is the size of retail merchants that are on-boarded. Continuing to secure top quartile retail merchants as Afterpay clients is a priority.

Live Afterpay Merchants

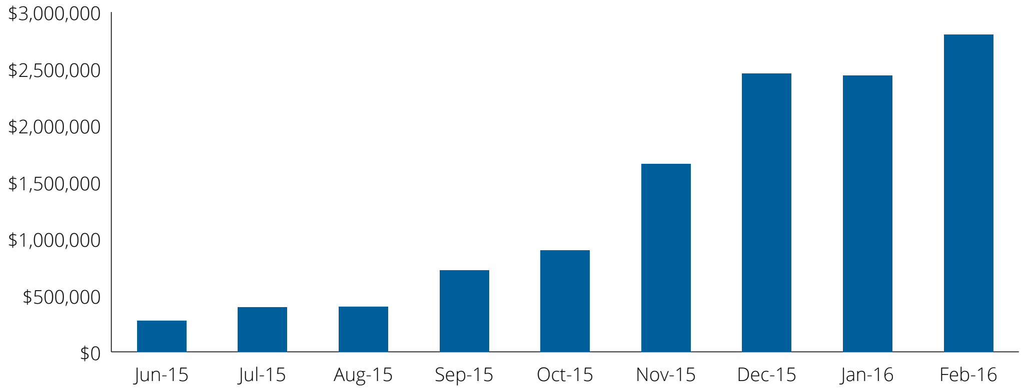


Underlying Merchant Sales

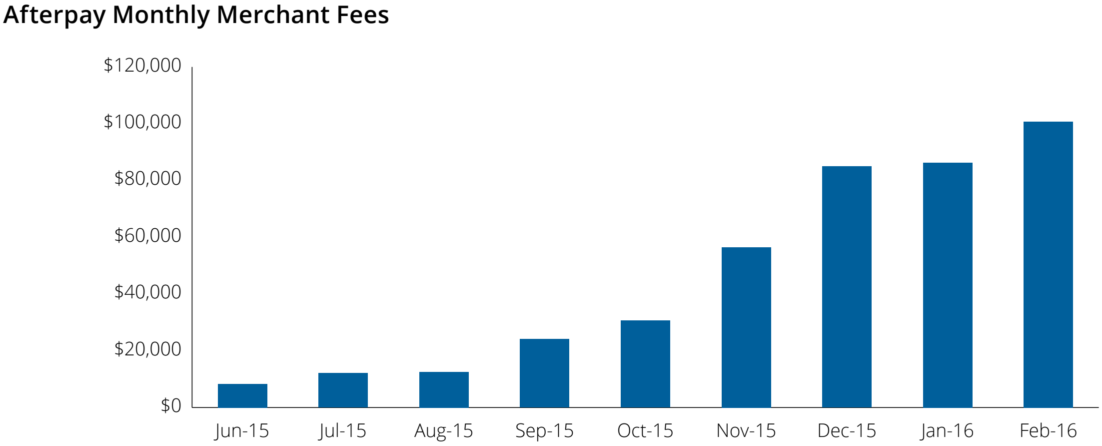
Underlying merchant sales are sales made by retail merchants where the end-customer has selected the Afterpay payment option. Underlying merchant sales have increased from $0.27 million for the month of June 2015 to more than $2.8 million for the month of February 2016 (unaudited).

As described above, only a small proportion of this sales revenue becomes Afterpay revenue in the form of Merchant Fees.

Afterpay Monthly Underlying Sales



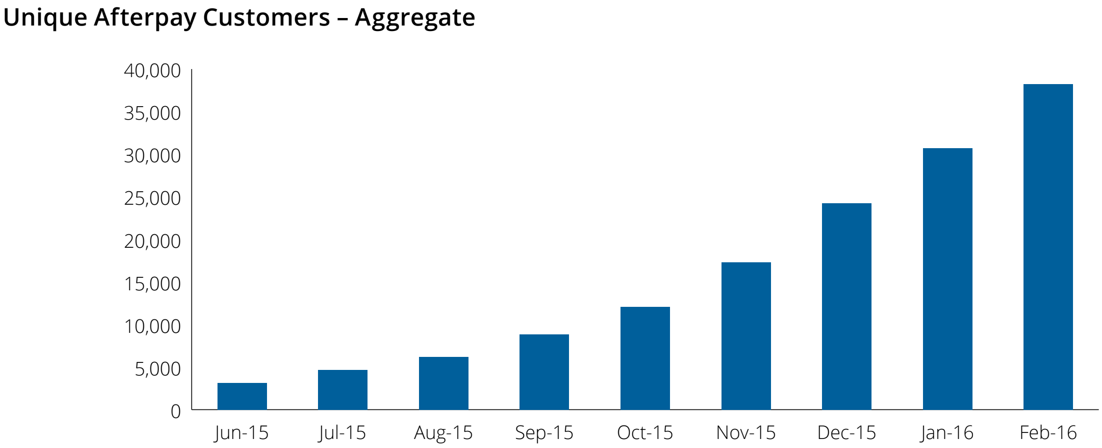
Afterpay Monthly Merchant Fees



Merchant Fees are based on a percentage of the value of underling sales and a fixed transaction fee. Merchant Fee growth is driven by the number of integrated retail merchants and new unique and returning end-customers that utilise the Afterpay service. Merchant Fees have grown from $8,000 in June 2015 to $101,000 in February 2016.

Unique End-customers

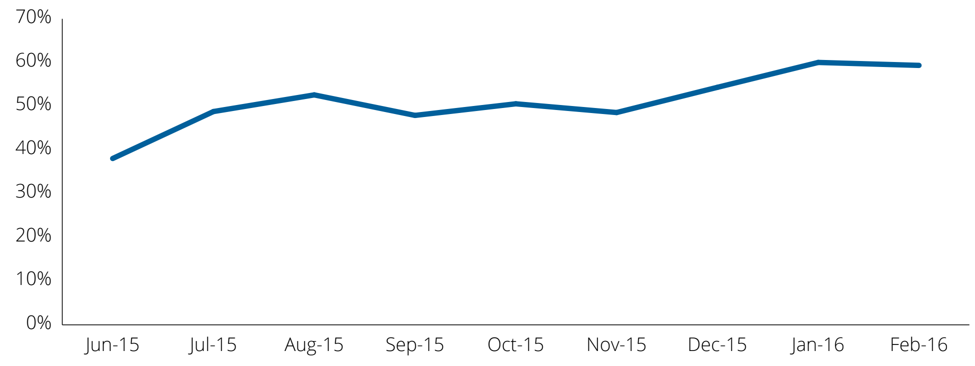
By 29 February 2016 over 38,000 unique end-customers had used Afterpay, an increase of more than 35,000 since 30 June 2015. In February 2016 alone, over 7,500 new end-customers joined and transacted with Afterpay.



Returning End-Customers

In the first two months of 2016 returning end-customers were responsible for approximately 60% of all Afterpay orders.

% of orders from Returning End-Customers



Net Transaction Margin

Afterpay measures the underlying performance and transaction profitability of its services through a Net Transaction Margin.

The Net Transaction Margin is measured before overheads and is calculated by deducting the following expenses from the Merchant Fee: Transaction Processing Costs (payable to Touchcorp on a 'favoured nation basis'); Transaction Funding Finance Costs; and Net Transaction Losses. See Section 4.3.2 for a more detailed description of the components of Net Transaction Margin and how it is calculated.

In H1 FY2016, Afterpay was Net Transaction Margin positive.

3.4.6 Ability to leverage core technology and current product focus into potential new, add-on product areas

The existing Afterpay System and Afterpay's developing market presence and experience are intended to be utilised to develop new products such as:

- **Afterpay In-store:** Integration with retail merchant client's POS in physical stores to enable end-customers to instantly pay with Afterpay via their mobile devices at the point of sale. This end-to-end solution combines seamless mobile payments with pay-by-instalment plans and eliminates the need for traditional in-store lay-by, as well as creating incremental sales for retail merchants. This product is expected to be trialled with retail merchant clients in the first half of calendar 2016
- **Extended Instalment Plans:** Afterpay intends to offer longer duration instalment plans to selected end-customers through the purchase process, thereby extending its current 8 week product, offering end-customers more flexibility and convenience when using Afterpay. These products may require Afterpay to apply for and operate under an 'Australian Credit Licence' (ACL). Afterpay applied to ASIC for an ACL in February 2016 (see Section 3.11 for more detail). If Afterpay did develop this kind of new product, it would be as an additional offering to the current "buy now, pay later" product and not as a replacement.

In addition, Afterpay believes that its technology can be exported to markets outside of Australia. International expansion opportunities may be considered in the future by Afterpay in its own capacity or through the development of international partnerships. Overseas expansion would involve certain barriers to entry that Afterpay would need to deal with, including new regulatory requirements, differentiation from existing competitors in those markets, having sufficient access to funding and capital, and potentially having to update or modify its technology and processes to handle different commercial and retail practices.

Afterpay's priority at present is the development and expansion of its current "buy now, pay later" product.

3.4.7 Experienced Management Team and Board of Directors

Afterpay senior management team, led by Executive Chairman Anthony Eisen and Managing Director Nicholas Molnar, has significant experience in the technology, online commerce and financial services sectors. The Company's broader management team has been instrumental in the success of the business and is well placed to execute further on the business growth strategy.

Since June 2015, Afterpay has expanded its team to 10 employees across the operations, sales, risk and product functions.

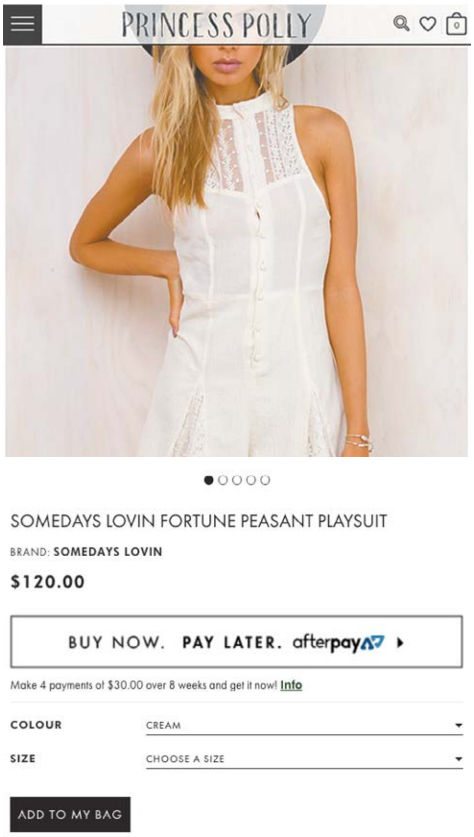
Afterpay has expanded its sales team through strategic hires with retail, online and payments backgrounds. These team members joined with extensive relationships with both leading Australian retailers and online technology platform providers.

From a product perspective, Afterpay has hired thought leaders in the online retail market with comprehensive experience in customer experience and payment products. Afterpay's risk and collections team hold a combined 25 years of experience in retail banking industry and have a wealth of knowledge of consumer behaviour in the retail market.

3.5 Afterpay Product Overview

One of the competitive advantages to the Afterpay approach is that it is a simple process for both retail merchant and end-customers to use as illustrated in the table below:

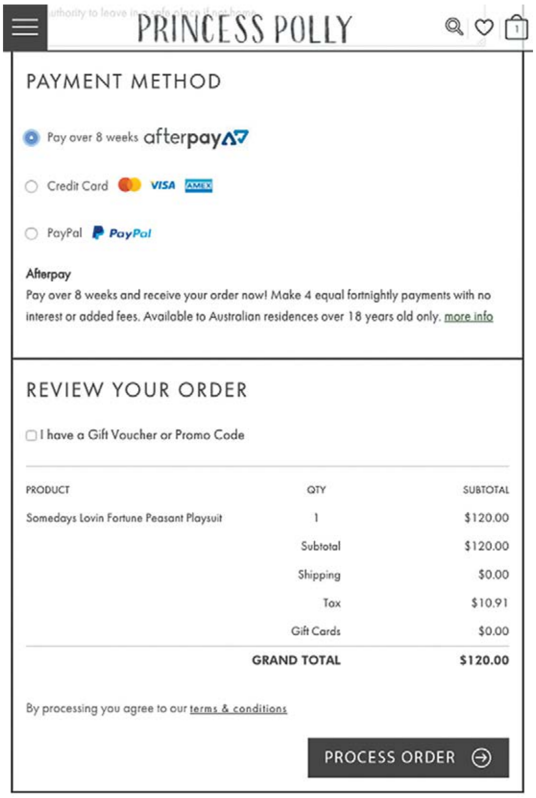
Retail merchant client *Step 1:*	Afterpay is integrated directly into its retail merchant client web sites. Touchcorp provides technical integration and on-boarding services to Afterpay's retail merchant clients and remains on-call to provide technical support at any stage of the initial integration or future relationship
Retail merchant client *Step 2:*	Afterpay's offer is generally embedded into the product pages of its retail merchant client web sites



Retail merchant client

Step 3:

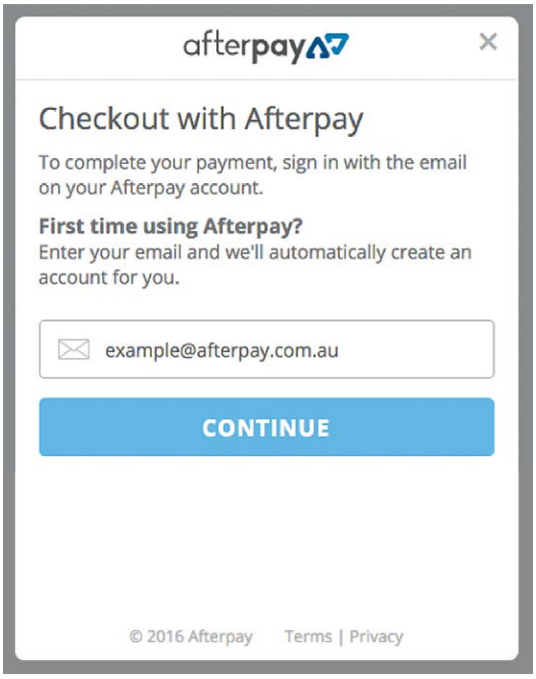
Afterpay payment option is also presented alongside regular payment options on the 'checkout' page



End-Customer

Step 1:

End-customer selects Afterpay and set-ups an account (one time only) if a first time customer



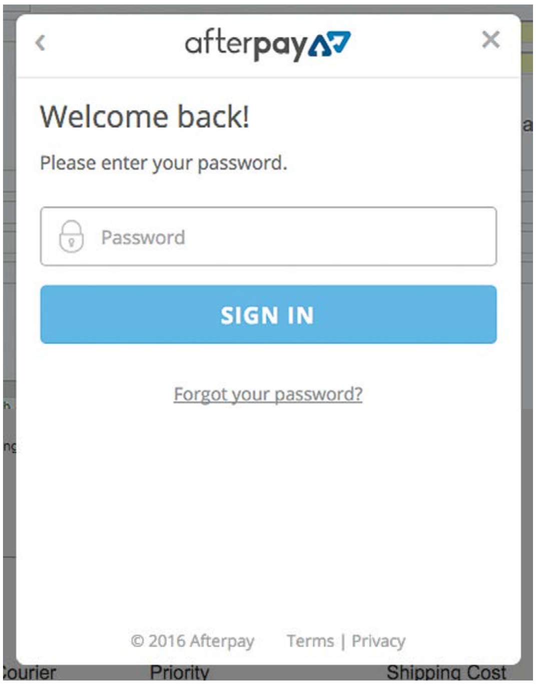
OR

End-Customer

Step 1:

cont.

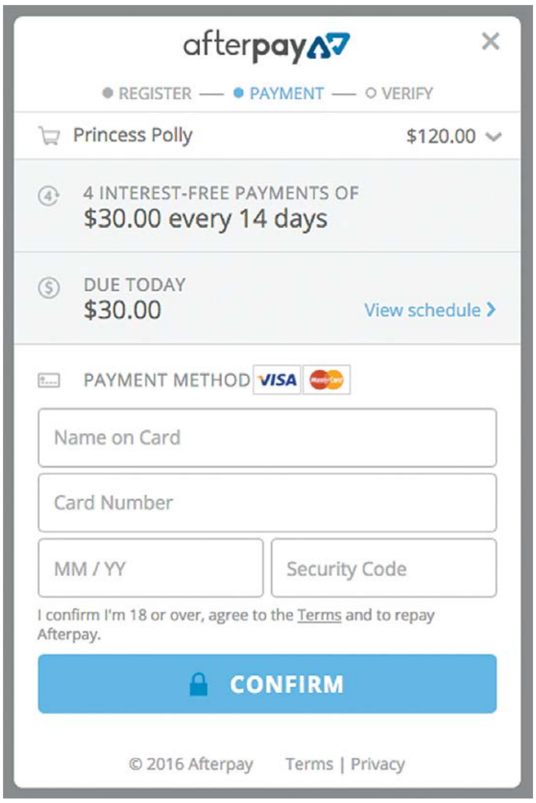
..... enters username and password if a returning customer



End-Customer

Step 2:

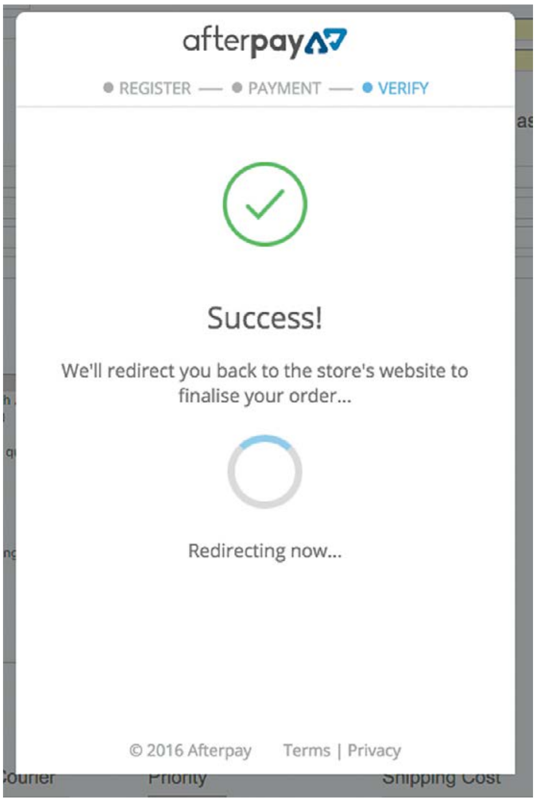
End-customer inputs information – generally no more information than ordinarily required to make any 'pay now' online purchase – including the credit or debit card that the end-customer wishes to be debited for future instalment payments

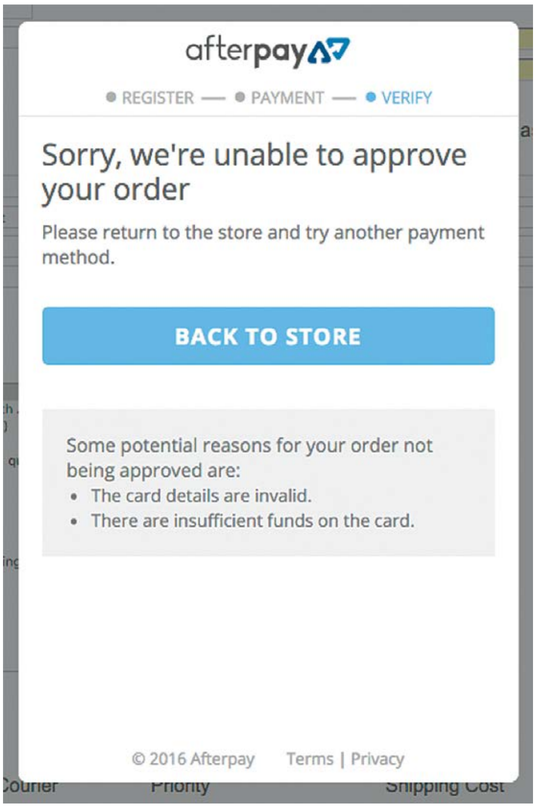


End-Customer

Step 3:

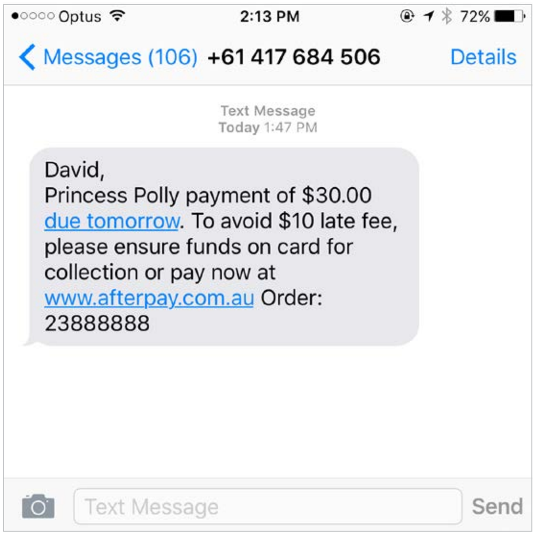
The Afterpay System assesses the transaction in real-time and responds with an Order Confirmation or Order Decline Message





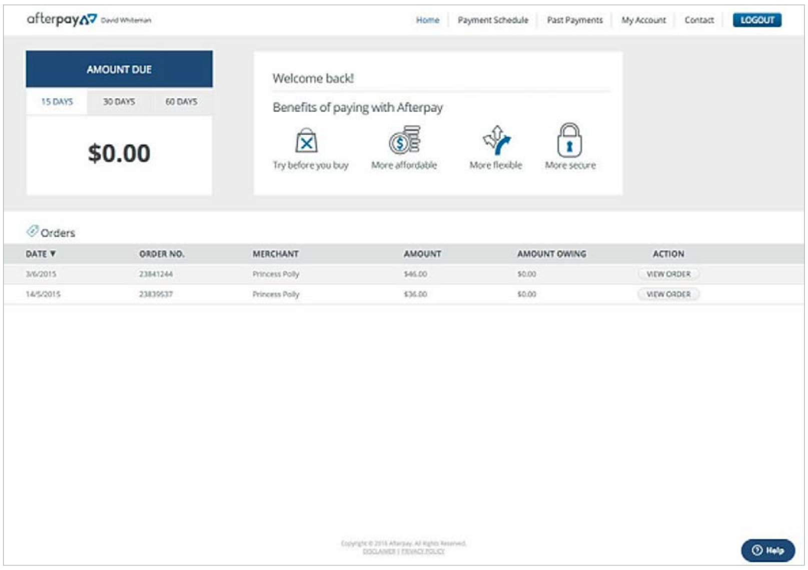
End-customer payment notification:

End-customer notified via email or SMS prior to next instalment payment date and pre-specified credit or debit card is automatically debited by the Afterpay System on the due instalment date



End-customer management:

If desired, end-customers can review and manage (including making early repayments) their Afterpay account via the Afterpay online customer portal



3.6 Risk Management

A critical element to the ongoing success of Afterpay is the ability to efficiently deal with transaction risks associated with providing end-customers with instalment payment terms. The Afterpay System manages these risks as follows:

- *Real time fraud and end-customer repayment capability assessment* – Every Afterpay attempted transaction is reviewed by Afterpay's Transaction Integrity Engine in real-time. Multiple data points garnered from both information directly supplied by the end-customer as well as information garnered from the online environment is captured and assessed against a number of pre-determined rules to derive an Afterpay transaction score. This score then determines whether or not an attempted transaction is accepted by the Afterpay System. Within this process, in most cases, Afterpay employs specific activities to verify identity (e.g. device verification via SMS authentication) and test repayment capability (e.g. card validation and pre-authorisation transactions). Afterpay does not engage with external credit agencies or conduct external credit checks on end-customers.

  Afterpay is continuously updating the parameters of its Transaction Integrity Engine as its transaction history becomes richer and more extensive. Afterpay expects that the effectiveness of its Transaction Integrity Engine will improve over time as its database of end-customers expands and the number of returning Afterpay end-customers increases
- *Handling product returns* – Afterpay guarantees fraud and other non-payments risks associated with collecting order values from the end-customer. Afterpay does not, however, guarantee the quality of purchased items or their delivery. Retail merchants have a number of different return policies and whether a particular return is 'valid' remains the domain of Afterpay's retail merchant clients to decide
- *Managing and collecting late payments* – Late payments occur when the end-customers nominated debit card or credit card is no longer valid or has insufficient funds on the due instalment payment date for Afterpay to automatically debit the instalment amount

  Afterpay has a multi-faceted, largely automated collections process. The key elements of which are as follows:

TIME PERIOD	PROCESS ELEMENT
Pre-due date	SMS reminder to end-customer to ensure they have sufficient funds in their nominated account to cover the instalment payment
Due date	Auto attempt and re-attempt
Overdue day 1 – 14	Auto re-attempts on variable days
Overdue day 15 – 60	In-house phone calls/Letter sent to end-customer. Afterpay employs a collections manager to oversee this activity and direct Touchcorp call centre personnel in this activity
Overdue day 60+	Outsource to third party collections agency

- *Dynamic and continuous profiling of end-customers* – End-customers are continuously being evaluated based on their transaction and repayment history as well as other data points garnered from the online environment. Returning Afterpay customers are more likely to be non-fraudulent and have positive repayment characteristics and this is recognised by the Afterpay System
- *Customer support* – Customer support is provided by an online response team as well as a 24/7 call centre. These services are provided by Touchcorp and Afterpay personnel.

3.7 Afterpay Retail Merchant Clients Overview

Afterpay currently has over 100 retail merchant clients utilising Afterpay's current pay by instalment product. Afterpay's current retail merchant clients include the following:

- AminoZ
- Cue Clothing Company
- General Pants Co
- Gregory
- Hunters & Gatherers
- Matchbox
- Optus
- Paddy Pallin
- Princess Polly
- Review
- RY.com.au
- SurfStitch
- St. Frock
- Tyresales.com.au
- Universal Store
- Wildearth
- Your Home Depot
- Zanerobe

For a further list of Afterpay's retail merchant clients, please refer to Afterpay's website: www.afterpay.com.au

Afterpay has seen strong results with its portfolio of retail merchant clients increasing key metrics including conversion rates, average order values and overall sales. Given the strength of the Afterpay service itself, Afterpay has generally been able to achieve strong penetration and share of orders in a relatively short period of time.

3.8 Afterpay Retail Merchant Client Case Study

Princess Polly Case Study

PRINCESS POLLY

Business description

Princess Polly is a women's fast fashion online retailer. The online store was started in 2010 by Eirin Bryett in true start up style out of her apartment, and now ship worldwide with over 80 new styles added every week. Recently listed in the Top 100 Online Retailers in Australia, the business is based in Burleigh Heads on the Gold Coast, and is still 100% independently owned.

Background to the relationship – why did you choose Afterpay?

As a pureplay online retailer we're always looking for the latest technology to stay ahead of our competition. After coming across a press release from Afterpay we decided to implement the technology to evaluate the service. Within days we instantly saw a big increase in our sales metrics and decided to prioritise the service across all of our marketing channels. We've now been using Afterpay for over 10 months and have had nothing but positive feedback from our customers.

Feedback on integration

We integrated and went live on Afterpay within a week. The shopping cart extension was installed by my developers easily, and testing was very straight forward. Our customers intuitively started using Afterpay immediately. The technology has been extremely reliable, with Afterpay providing very good support when required.

Results/Statistics

Customers are spending more and coming back more often. Since launching with Afterpay we have seen incredible uptake with over a third of our orders utilising the service. Our average order value is 60% higher when customers use Afterpay, our conversion rate is now 25% higher, and our Afterpay customers shop with us twice as frequently.

Wez Bryett – CEO Princess Polly

Case Study: Cue Clothing Co

Business description

Proudly Australian owned by the family who started it all, Cue has been at the fashion frontier for over 47 years. In 1968 Cue introduced a modern point of view to Australian fashion and continue to deliver what is new and next.

As Australia's favourite fashion brand, as voted by the readers of marie claire, Cue is industry awarded, ethically accredited and predominantly Australian made with all designs and samples originating from our head office in Surry Hills, Sydney. Staying local means that we support the Australian fashion industry and deliver of-the-minute designs with that Cue edge.

An Australian icon, Cue has stores in all of Australia and New Zealand's major cities, is available in every Myer – the exclusive department store home of Cue – and world-wide, online at www.cue.cc.

Background to the relationship – why did you choose Afterpay?

A culture of innovation at Cue is at the heart of everything that we do – including our e-commerce experience and the foundation for how we interact with our customers and the solutions we offer.

We went to market to look for emerging payment solutions in an effort to provide our customers with more choice and flexibility when transacting online. Afterpay stood out from the crowd as an intelligent, intuitive and in demand solution providing customers a unique payment option. Afterpay differentiated from those we already offered and others in the market, whilst providing a simple and seamless checkout process.

Nicholas Molnar and the team from Afterpay have been a pleasure to deal with from the initial meeting, through to the on-boarding and integration process. Furthermore the Afterpay team have continued to adapt to meet our business requirements and enhance and evolve the platform offering a truly innovative solution in the payment space.

Feedback on integration

The integration process with Afterpay was very straight forward and we went live within weeks. This included a fully integrated refund process, utilising the Afterpay API, within our POS solution in store. The Afterpay team were a great support and invaluable in developing this functionality to ensure a unified omni-channel experience.

Results from working with Afterpay

Since launching Afterpay in November 2015 we have seen an amazing uptake by our customers and it is currently the most utilised payment type of choice on our websites. What's most compelling is the increase in our average online order value for customers using Afterpay in comparison to our other payment options. Following the success of Afterpay with Cue, we have now launched the payment option for Veronika Maine with initial results proving equally promising.

Shane Lenton – CIO Cue Clothing Co.

3.9 Strategy and Growth Drivers

Afterpay's strategy is focused on end-customer lifecycle value.

1. **Start with a compelling product with a value proposition that end-customers immediately understand, value and want to use on a recurring basis**

   Afterpay's current product is unashamedly end-customer friendly. It provides end-customers with a transaction-fee free offer, transparent and easy to use service.

2. **Deliver an equally compelling value proposition to retail merchant clients and other future clients in order to create, penetrate and lead the 'buy now, pay later' market**

   It benefits our retail merchant clients to offer and market the Afterpay service to end-customers to incentivise increased purchases and average order values.

   Afterpay's strategy is to continue to rapidly penetrate online categories or verticals wherein it already has a presence and to penetrate new categories applicable to the current Afterpay product offer.

3. **Utilise Afterpay's technology and transaction history to expand Afterpay's database of pre-qualified end-customers**

   Afterpay's Transaction Integrity Engine and payments collection processes are continually being refined as Afterpay's transaction history develops. This evolving process is expected to translate into:

   - Limiting fraudulent end-customers from accessing the Afterpay service
   - Late payments collection process improvement as different methodologies are tested and refined
   - Returning customers represent a greater proportion of Afterpay transactions

4. **Leverage Afterpay's technology, online market positioning and end-customer knowledge base into expanded product areas and revenue streams**

   Afterpay's core technology and process competencies could be utilised to develop opportunities such as:

   - An Afterpay 'in-store' version of its current online product
   - Longer duration, pay-by-instalment products. To the extent that such products include interest or credit charges, Afterpay's ability to pursue this potential future opportunity will be subject to obtaining all necessary regulatory licences (see Section 3.11 for more detail).

   In addition, Afterpay believes that its technology can be exported to markets outside of Australia. International expansion opportunities may be considered in the future by Afterpay in its own capacity or through the development of international partnerships. Overseas expansion would involve certain barriers to entry that Afterpay would need to deal with, including new regulatory requirements, differentiation from existing competitors in those markets, having sufficient access to funding and capital, and potentially having to update or modify its technology and processes to handle different commercial and retail practices.

Although Afterpay is considering potential expansion into new products such as those with a longer duration, and potential international markets, its priority is to develop and expand its current "buy now, pay later" product in the Australian market (online and offline). There are no current plans to actively pursue other products or international markets in the short term (the next 12 months), and Afterpay has not allocated capital to those opportunities at present. Accordingly, it is not possible to forecast when Afterpay may pursue these strategic developments, nor the potential size or revenues of business that they may involve.

3.10 Funding of the business

Afterpay's business of funding purchases by end-customers requires funding capital which can be paid to retail merchant clients in advance of collection of the purchase price instalments from those end-customers. To date Afterpay has relied on equity capital to provide this funding, and currently has no financial debt. After completion of the Offer Afterpay intends to apply an additional $20.3 million to this purpose, which would significantly increase funding capital from around $3 million at 29 February 2016 to more than $23 million on a pro forma post-Offer basis.

Having a limited amount of funding capital imposes a natural limit on the volume of business that Afterpay can conduct at any particular time, and that limit will depend on factors such as outstanding end-customer receivables, average payment timing from end-customers, and levels of late payments and bad debts. Having funding capital of $23 million would be more than sufficient for Afterpay's current business levels as well as expected increases in funding requirements for retail merchant integrations which have recently been completed or are in progress, without the need for additional debt or other funding in the next 12 months.

In order to further expand its available funding capacity in the future should it be required, Afterpay is investigating access to debt funding from commercial lenders. Debt funding is more likely to be available if the Offer is completed, as there will be a more substantial level of equity capital that can provide support to such a debt facility, by way of provision of a first loss layer or other form of cash buffer which would provide security to a potential lender over and above end-customer receivables. Debt funding has the potential to expand the Company's funding ability if in the future the business grows rapidly and equity funding becomes insufficient, but also introduces new risks to Shareholders such as interest rate risk and refinancing risk.

If Afterpay's business continues to grow rapidly and current sources of funding are not sufficient to satisfy increased demand, Afterpay has several options that it could seek to undertake including:

- to seek external debt funding, as noted above,
- if debt funding is not available on acceptable terms, then the Company may consider additional equity funding, or
- if neither equity nor debt funding is available on acceptable terms, then Afterpay is able to ensure that its funding ability will not be exceeded by a combination of delaying future retail merchant on-boarding, and by adjusting its response to end-customer approval requests so as to approve only the higher quality applications. Afterpay would, however, seek to avoid this option if possible as it could damage Afterpay's reputation as a reliable payment method for end-customers.

For any of these requirements to arise Afterpay's business would have to increase very substantially from its current size. As an early stage business with a limited operating history, Afterpay is not able to reliably forecast if or when this may occur in the future.

3.11 Regulatory environment

Afterpay's business is not currently subject to legal requirements to have an Australian Credit Licence (ACL) or an Australian Financial Services Licence (AFSL). This is, in part, due to the nature of the current Afterpay product, which does not involve charging interest or credit fees to end-customers. Afterpay is, however, subject to other legal and industry compliance requirements including privacy laws, data protection laws and contractual conditions.

Afterpay could continue to operate its current business model indefinitely without an ACL or AFSL, but potential future strategies to expand into other product offerings, such as an extended instalment payment offering which includes an interest component, may require such licences. In the absence of the necessary licence Afterpay's business model will be limited to revenues that do not include interest or charges for credit, although there is no statutory limit on the duration of the instalment periods that Afterpay can offer end-customers.

Afterpay applied for an ACL in February 2016. There is no assurance that an ACL will be granted to Afterpay, and an inability to obtain any necessary licence may limit Afterpay's prospects. In particular, Afterpay would not be able to offer regulated products in Australia such as those which include an interest component or a fee for advancing credit.

3.12 Afterpay's Intellectual Property

Afterpay's core intellectual property asset is the Afterpay System (see section 3.4.2) and the accumulating transaction data, rules and end-customer insights generated from end-customers using the Afterpay System.

Under the Software Development and Licence Agreement (SDLA) with Touch Australia, all intellectual property in the Afterpay System which was created or brought into existence by Touch Australia and its contractors in connection with the SDLA vests in Afterpay. In addition, Afterpay holds a perpetual, royalty-free licence to reproduce and modify Touch Australia's intellectual property rights that are embedded in the Afterpay System for the purpose of operating the Afterpay System. Afterpay's access to the licensed Touch Australia intellectual property is protected under the SDLA by way of step-in rights, and there is a further obligation on Touch Australia to place copies of the source code and object code of the Afterpay System with a third party escrow agent for Afterpay's benefit. Ownership and perpetual licensing of these intellectual property rights, and exclusive possession of Afterpay's accumulated transaction data, provide a competitive advantage to Afterpay that would be difficult for a new market entrant to replicate without infringement of Afterpay's rights or accumulation of new transaction data.

Refer to section 9.2.1 for additional information regarding the SDLA.

Afterpay's intellectual property is protected under Australian laws relating to copyright, trade marks, and contractual confidentiality obligations. Afterpay does not hold any patents in relation to these rights.

Afterpay also holds a registered domain name and registered trademarks which are used for its business in Australia. However, expansion into certain new markets outside Australia may risk conflict with registered trademarks of another unrelated company with a similar name, and in that case Afterpay may have to consider rebranding its offering in those new markets.

04 Financial information

04. Financial information

4.1 Introduction

The financial information contained in this Section has been prepared by the Company on a consolidated basis, including its subsidiary, in connection with the Offer. The financial information for the Company contained in Section 4 includes the following information:

- Historical financial information of Afterpay:
  - Historical consolidated income statements for the financial year ended 30 June 2015 (FY2015) and the six month period ended 31 December 2015 (H1 FY2016);
  - Historical consolidated cashflows for FY2015 and H1 FY2016; and
  - Historical consolidated balance sheet as at 31 December 2015;

(together the **Historical Financial Information**);

- Pro forma historical financial information of Afterpay, being the:
  - Pro forma historical consolidated balance sheet as at 31 December 2015;

  (the **Pro Forma Historical Financial Information**).

The Historical Financial Information and Pro Forma Historical Financial Information are together referred to as the "**Financial Information**".

The Financial Information as defined above has been reviewed by Ernst & Young in accordance with the *Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as stated in its Independent Limited Assurance Report set out in Section 8. Investors should note the scope and limitations of that report.

Due to Afterpay's limited operating history and the fact that commercialisation of its current product did not commence until after 30 June 2015 (refer Section 3.2), the Directors did not consider that it was necessary to have the Historical Financial Information audited in addition to obtaining the review that was conducted by Ernst & Young. Accordingly, investors should be aware that the Financial Information is not audited.

The Financial Information presented in Section 4 should be read in conjunction with the business overview set out in Section 3, key risks set out in Section 5 and other information contained in this Prospectus. Investors should note that past results are not a guarantee of future performance.

Also summarised in Section 4 are:

- The basis of preparation and presentation of the Financial Information (see Section 4.2.1);
- A summary of Afterpay's proposed dividend policy (see Section 4.7).

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $1,000.

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview of preparation and presentation of the Financial Information

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the historical financial performance and cashflows of Afterpay for the year ended 30 June 2015 and the six month period ended 31 December 2015 and the financial position of Afterpay as at 31 December 2015.

The Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (**AAS**) issued by the Australian Accounting Standards Board (**AASB**), which is consistent with International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board.

The Pro Forma Historical Financial Information has been prepared in a manner consistent with the recognition and measurement principles contained in AAS, which are consistent to IFRS, applied to the historical consolidated balance sheet and the events or transactions to which the pro forma adjustment relate, as described in Section 4.4 of the Prospectus, as if those events or transactions had occurred as at 31 December 2015.

The Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The significant accounting policies of Afterpay relevant to the Financial Information are set out in Appendix A. Accounting policies have been consistently applied throughout the periods presented. Afterpay is an Australian domiciled technology driven payments company; as such management views the overall business as one segment.

4.2.2 Preparation of Financial Information

Afterpay Pty Ltd and Afterpay were incorporated on 2 May 2014 and 22 June 2015, respectively. On 16 July 2015, Afterpay completed the acquisition of Afterpay Pty Ltd, which resulted in Afterpay becoming the ultimate parent of Afterpay Pty Ltd. Afterpay was incorporated as a special-purpose company to make an offer to acquire all of the shares of Afterpay Pty Ltd. Afterpay has not conducted any business other than to be the holding company of Afterpay Pty Ltd since incorporation nor since the successful completion of the acquisition of Afterpay Pty Ltd on 16 July 2015. As Afterpay Pty Ltd is a small proprietary company as defined in the Corporations Act 2001, it did not have a financial reporting requirement. Similarly, Afterpay did not have a financial reporting requirement prior to its conversion to an unlisted public company on 2 March 2016.

The Historical Financial Information for FY2015 for Afterpay has been derived from the FY2015 financial statements of Afterpay on which no audit opinion or limited assurance conclusion has been issued. The Historical Financial Information for H1 FY2016 for Afterpay has been derived from the half-year financial statements of Afterpay for the six month period ended 31 December 2015 which was reviewed by Ernst & Young and on which an unqualified limited assurance conclusion was issued.

The Pro Forma Historical Financial Information has been prepared for the purpose of inclusion in this Prospectus. The Pro Forma Historical Financial Information has been derived from the historical consolidated balance sheet as at 31 December 2015 and adjusted for the effects of the pro forma adjustments described in Section 4.4 of the Prospectus, to reflect Afterpay's capital structure, which will be in place following Completion of the Offer as set out in the Key Offer Information Section.

Refer to Section 4.4 for a reconciliation between Afterpay's historical consolidated balance sheet and the pro forma historical consolidated balance sheet as at 31 December 2015.

Investors should note that past results do not guarantee future performance.

Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position.

4.2.3 Explanation of certain non-IFRS financial measures

Afterpay uses certain measures to manage and report on its business that are not recognised under the AAS. These measures are collectively referred to as non-IFRS financial measures.

The principal non-IFRS financial measures used in this Prospectus are as follows:

EBITDA is earnings before interest, taxation, depreciation and amortisation;

EBIT is earnings before interest and taxation;

Gross profit is calculated as services revenue less cost of sales;

Working capital is defined by Afterpay as the total of trade and other receivables, prepayments less trade and other payables;

Net Transaction Margin is measured before overheads and is calculated by the Merchant Fees less transaction costs on a 'favoured nation basis', less transaction funding finance costs and Net Transaction Losses;

Average Transaction Value is calculated as the total underlying sales value in the time period divided by the total number of transactions in the time period.

Net transaction Loss represents outstanding consumer instalment payments less expected instalment payment recoveries and late fees that have been paid and are expected to be recovered. The ratio is calculated as a percentage of gross payments due in the given time period. All expected recoveries are calculated on the basis of historical recovery rates.

Although the Directors believe that these measures provide useful information about Afterpay's financial performance, they should be considered as supplements to the income statement and cashflow measures that have been presented in accordance with the AAS and not as a replacement for them. Because these non-IFRS financial measures are not based on AAS, they do not have standard definitions, and the way Afterpay calculates these measures may differ from similarly titled measures used by other companies. Readers should therefore not place undue reliance on these non-IFRS financial measures.

4.3 Historical consolidated income statements

4.3.1 Table of historical consolidated income statements

Table 1 summarises Afterpay's historical consolidated income statements for FY2015 and H1 FY2016.

Table 1: Historical consolidated income statements

$'000	FY2015[1]	H1 FY2016
Services revenue	24	220
Cost of sales	(5)	(31)
Gross profit	**19**	**189**
Other Income	3	46
Bad and doubtful debts	(6)	(189)
Other operating expenses	(55)	(493)
EBITDA	**(39)**	**(447)**
Depreciation and amortisation expense	–	(868)
EBIT	**(39)**	**(1,315)**
Interest revenue	–	57
Loss before tax	**(39)**	**(1,257)**
Income tax benefit/(expense)	–	–
Net Loss After Tax	**(39)**	**(1,257)**

1. The consolidated income statement for FY2015 has been presented on a full year basis as Afterpay only began its operations in the second half of FY2015.

4.3.2 Business model and key operational metrics

Afterpay's revenue is predominantly derived from Merchant Fees (Services Revenue) that are generated on each discrete, Afterpay approved order placed by end-customers through retail merchant websites. Merchant Fees are generally based on a percentage of the end-customer order value plus a fixed fee per transaction. Merchant Fees are paid by Afterpay's retail merchant clients, as opposed to end-customers.

Afterpay closely tracks the level of underlying merchant sales because it indicates the growth in the underlying volume of transactions from which merchant fees are derived.

The level of underlying sales has been growing on a monthly basis to date as new integrated retail merchants are on-boarded and new and repeat end-customers utilise the Afterpay service. These are also key operational metrics as they are a driver of underlying merchant sales and, in turn, Merchant Fees.

Merchant Fees (Services Revenue) represent only a small proportion of underlying sales in any given period.

In relation to each Afterpay underlying sale, Afterpay also incurs variable costs that can be measured as a percentage of underlying sales or end-customer payments due in any given period. These variable costs include:

- Cost of sales: Transaction processing costs paid to Touchcorp on a favoured nation pricing basis (refer Section 4.6.5). These costs are included in, and predominantly represent, 'Cost of sales' in the historical consolidated income statements.
- Net transaction losses: Afterpay expects to incur costs in instances where it can not recover instalment payments due from end-customers. A significant portion of Afterpay's operational activity and technology is directed towards minimising these costs by screening end-customers and their transactions before an Afterpay order is approved and by having an effective late payment and late fee collections process. Afterpay dynamically measures its screening and recovery performance by estimating Net Transaction Loss at regular points in time.

  Net Transaction Loss measures outstanding 'overdue' end-customer instalment payments in a given period less subsequent actual and expected instalment payment and late-fee recoveries. The ratio is calculated as a percentage of gross end-customer instalment payments due in the given time period. All expected recoveries are calculated on historical recovery rates.

  The Net Transaction Loss for the six month period ending 31 December 2015 was 1.6% as measured at 31 March 2016.

  Bad and doubtful debts (refer Section 4.6.7) in the historical consolidated income statements is not calculated on the same basis as Net Transaction Loss outlined above. 'Bad and doubtful debts' in the consolidated income statements reflects an estimate of non-recoverable amounts relating to gross end-customer receivables at period end (refer Section 4.8). Gross end-customer receivables relate to both 'overdue' instalment payments at period end as well as 'pre-due' instalment payments. Additionally, late payment fees are not deducted or netted from 'Bad and doubtful debts' in the consolidated income statements but are reflected separately as 'Other Income' (Refer Section 4.6.3). Late payment fees included in 'Other income' reflect actual late payment fees recovered in the period but do not include future expected late payment fee recoveries.

  End-customer instalment payments and Afterpay recovery activities post 31 December 2015 performed better than what was estimated in the 'Bad and doubtful debt' provision at balance date.

Afterpay expects to incur variable funding costs in the future to the extent that it is able to secure debt funding to facilitate the growth of its business. Afterpay must internally fund the period between paying the merchant upfront (the face value of the underlying sale less the Merchant Fee) and recovering payment from the end-customer over a maximum 56-day period. To date, Afterpay has utilised internal funding to facilitate this activity and no direct cost has therefore been reflected in its historical consolidated income statements.

Afterpay's objective is to generate a positive margin (Net Transaction Margin) after deducting variable costs from transaction related revenue. For the six-month period ended 31 December 2015, Afterpay was Net Transaction Margin positive but not to a sufficient extent to cover 'Other operating costs' (refer Section 4.6.6) which are fixed or less variable in nature. The strategy is then to scale the number of transactions to produce a net profit after tax.

Table 2 summarises Afterpay's key historical operational metrics for FY2015 and H1 FY2016.

Table 2: Historical operational metrics for FY2015 to H1 FY2016

	FY2015	H1 FY2016
Underlying merchant sales	$0.6 million	$6.5 million
Average transaction value	$127	$151
Number of integrated retail merchants – aggregate	9	>60
Number of unique end-customers – aggregate	<4,000	>24,000
Net transaction loss[1]	2.2%	1.6%
% of repeat end-customers	<30%	>45%

Note
1. Net transaction loss is calculated as at 31 March 2016 and represents overdue instalment payments at balance date less subsequent actual and expected instalment payment and late fee recoveries. The ratio is calculated as a percentage of gross payments due in the relevant reporting period. All expected recoveries are calculated on historical recovery rates.

4.4 Historical and pro forma historical consolidated balance sheet

Table 3 sets out the historical consolidated balance sheet as at 31 December 2015, pro forma adjusted to take into account the effect of the Offer proceeds and transaction costs. These adjustments reflect the impact of the change in capital structure that will take place as part of the Offer, as if it were in place as at 31 December 2015.

Table 3: Historical and pro forma historical consolidated balance sheet as at 31 December 2015

$'000	Note	Historical 31-Dec-2015	Pro forma adjustments	Pro forma historical 31-Dec-2015[1]
Cash and cash equivalents	1	2,233	23,300	25,533
Net receivables		1,960	–	1,960
Other current assets		366	–	366
Total current assets		**4,559**	**23,300**	**27,859**
Intellectual property		12,133	–	12,133
Property, plant and equipment		16	–	16
Total non-current assets		**12,149**	**–**	**12,149**
Total assets		**16,708**	**23,300**	**40,008**
Payables & accruals		77	–	77
Other current liabilities		51	–	51
Total current and non-current liabilities		**128**	**–**	**128**
Net assets		**16,580**	**23,300**	**39,880**
Issued capital	1	17,884	23,300	41,184
Accumulated losses		(1,304)	–	(1,304)
Total Equity		**16,580**	**23,300**	**39,880**

Note
1. Assumes $25m capital raised with $1.7m of capital raising costs

4.5 Historical consolidated cashflows

Table 4 sets out the historical consolidated cashflows for FY2015 and H1 FY2016.

Table 4: Summary historical consolidated cashflows

$'000	FY2015[1]	H1 FY2016
Loss before tax	(39)	(1,257)
Depreciation & amortisation expense	–	868
Net finance revenue	–	(57)
EBITDA	**(39)**	**(447)**
Changes in working capital	1	(2,248)
Net operating cashflow before tax	**(38)**	**(2,695)**
Tax paid	–	–
Net operating cashflow	**(38)**	**(2,695)**
Finance income	–	57
Fixed assets expenditure	–	(17)
Purchase of intangible assets	–	(3,000)
Net cashflow before financing activities	**(38)**	**(5,655)**
Proceeds from Directors	40	–
Proceeds from issue of new shares	—	8,000
Transaction cost associated with capital raising	—	(116)
Net cashflow	**2**	**2,229**

Note
1. The consolidated cashflows for FY2015 has been presented on a full year basis as Afterpay only began its operations in the second half of FY2015.

4.6 Discussion and analysis of the Historical Financial Information

4.6.1 General factors affecting the operating results of Afterpay

The following section will discuss the key factors affecting Afterpay's operating and financial performance in FY2015 and H1 FY2016.

It should be noted that the following discussion is intended to provide a brief summary only and does not detail all factors that affected Afterpay's historical operating and financial performance, or everything that may affect the Company's operations and financial performance in the future. The information in this Section should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

4.6.2 Services Revenue – Merchant Fee

Afterpay receives its revenue primarily from transaction fees paid by its retail merchant clients (Merchant Fees) in relation to facilitating the payments on the underlying sales on their web sites. Merchant Fees are generated on each discrete, approved order placed by the end-customer through the Afterpay system. Merchant Fees are predominantly based on a percentage of the end-customer order value plus a fixed per transaction fee. In H1 FY2016 Afterpay saw significant growth in the number of new merchants and end-customers leading to a material increase in merchant revenue.

4.6.3 Other Income – Late fees

In cases where the end-customer is late with any of the instalment payments, the end-customer can be charged late fees, which vary depending on the time the instalment remains outstanding. In H1 FY2016 late fees represented approximately 17% of Afterpay's revenue.

4.6.4 Expenses

Afterpay's expenses comprise cost of sales, operating expenses, bad and doubtful debts, depreciation and amortisation expense. Details of the key group of expenses incurred by Afterpay, and the key drivers of each source of expense, are set out below.

The Afterpay System was built and continues to be maintained and developed by Touchcorp ensuring no ongoing material technology and product development related "cash burn" in relation to contractually specified maintenance and development activities.

4.6.5 Cost of sales

Cost of sales are primarily made up of transaction processing costs payable to Touchcorp on a favoured nation basis and includes payment gateway fees and SMS validation fees.

4.6.6 Other operating expenses

Other operating expenses include employee related costs, rent and associated costs, insurance, legal fees, Board costs, the cost of external consultants, travel and accommodation expenses, compliance costs, staff amenities, printing and stationery, motor vehicle allowances and associated minor expenses. Increase in staff headcount in the business was the primary driver for increased other operating expenses in H1 FY2016.

As volumes of processed transactions increase over time, it can be expected that these operating expenses decline as a percentage of Afterpay revenue.

4.6.7 Bad and doubtful debts

Bad and doubtful debts arise from non-payment of scheduled instalment payments by end-customers. When expressed as a percentage of overall underlying sales on merchant websites, bad and doubtful debts are trending positively downwards as the Afterpay System benefits from increasingly larger volumes of data, repeat end-customers and processes are put in place to improve repayment capability assessment and management of overdue payments. The past repayment patterns of end-customers are continually monitored and a bad and doubtful debts provision is estimated at period end for both pre-due outstanding payments and overdue payments. The provision established at the period end may increase or decrease depending on the post period end payment patterns of end-customers. Afterpay incurs expenses associated with debt collection performed by third parties on its behalf.

See section 4.8 for additional detail regarding Afterpay's exposure to bad and doubtful debts.

4.6.8 Depreciation and amortisation expense

Depreciation and amortisation expense represents amortisation of the Intellectual Property held by the Company which was acquired from Touchcorp, as well as general depreciation of property, plant and equipment. Depreciation and amortisation expense is based on the estimated useful life profile, and depreciated or amortised over the useful life in accordance with Afterpay's accounting policies.

Table 5 outlines Afterpay's treatment of intellectual Property.

Table 5: Accounting treatment of Intellectual Property

	INTELLECTUAL PROPERTY
Useful lives	Finite
Amortisation method used	5 years – straight line
Internally generated/acquired	Acquired
Impairment testing	Amortisation method reviewed at every reporting period. Reviewed annually for indicators of impairment.

The Afterpay system began amortising from September 2015.

4.6.9 Interest revenue

Interest revenue comprises interest earned on existing cash held. As at 31 December 2015 Afterpay held $2.2m in cash and cash equivalents, all in interest bearing bank accounts.

4.7 Dividend policy

The payment of dividends by the Company, if any, subject to law, is at the complete discretion of the Directors, and the Directors do not provide any assurance of the future level of dividends and the level of franking of such dividends. The ability to pay dividends will depend on a number of factors, many of which are beyond the control of the Company. In determining whether to declare future dividends, the Directors will have regard to Afterpay's earnings, overall financial condition, capital requirements and the level of franking credits available. It is intended that no dividend will be paid following Listing in respect of the 2016 fiscal year.

4.8 Receivables

In H1 FY2016, Afterpay processed a total of $6.5m in underlying sales. As at 31 December 2015, Afterpay had gross customer receivables of $2.2m of which approximately $70,000 were aged 1 to 30 days past due, $34,000 were aged 31 to 60 days past due and $75,000 were aged 61 days or greater. Based on this receivables profile Afterpay recorded a provision for impairment of $6,000 for FY2015 and $189,000 for the six month period ended 31 December 2015 (total $195,000 as at 31 December 2015).

Table 6: Customer Instalment Payment Receivables as at 31 December 2015

		Past Due			
$'000	Owed But Not Yet Due	1-30 days	31-60 days	Over 60 days	Total
Customer receivables	$1,975	$70	$34	$75	$2,155
Provision for impairment	$54	$41	$30	$69	$195
Net customer receivables	$1,921	$29	$4	$6	$1,960

4.9 Intellectual Property – Touchcorp relationship

The Afterpay System was developed by Touchcorp through the modification and further development of pre-existing Touchcorp technology and systems. The Afterpay System continues to be maintained and developed by Touchcorp under a Software Development and License Agreement. All Intellectual Property created as a consequence of development of the Afterpay System is owned by Afterpay, having paid Touchcorp a development fee of $13 million, which comprised of $3 million in cash and $10 million in shares.

4.10 R&D claim

A R&D claim has been lodged with AusIndustry and the ATO is yet to process the R&D refund of $1.35 million. When the R&D refund is processed, or the ATO confirms the refund will be processed the refund amount will be recognised for financial reporting purposes by netting off against the cost of the Intellectual Property platform on the balance sheet and amortised accordingly.

4.11 GST claim

Afterpay has claimed input tax credits referable to GST included on certain costs it has incurred, the most material of which is an input tax credit of $300,000 referable to supplies made by Touchcorp to Afterpay. Afterpay is under audit by the ATO with respect to certain Business Activity Statements (BAS) lodged including the BAS for the period during which the $300,000 input tax credit was claimed. Afterpay with the assistance of its adviser is working with the ATO to resolve the ATO audit, the outcome of which is unknown as of the date of this Prospectus.

4.12 Cashflow commentary

In the six months period ended 31 December 2015, $8 million of equity was raised incurring costs of $0.2 million. These funds were used to pay the Touchcorp development fee of $3 million and fund the end-customer receivables of $2.2 million and other operating expenses and overall increase the cash holdings to $2.2 million at 31 December 2015.

05 Key Risks

05. Key Risks

5.1 Introduction

This Section 5 describes some of the potential risks associated with Afterpay's business and the industry in which it operates, and also the risks associated with an investment in New Shares.

Afterpay is subject to a number of risks both specific to Afterpay's business activities and of a general nature, which may either individually or in combination adversely impact the future operating and financial performance of Afterpay, its investment returns and the value of its Shares.

Investors should note that this Section 5 does not purport to list every risk that may be associated with an investment in New Shares now or in the future, and the occurrence or consequences of some of the risks described in this Section are partially or completely outside the control of Afterpay, its Directors and management. There can be no guarantee that Afterpay will achieve its stated objectives or that any forward looking statement or forecasts will eventuate.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. The assessment is based on the knowledge of the Directors as at the date of this Prospectus, but there is no guarantee or assurance that the importance of risks will not change or other risks will not emerge.

Before applying for New Shares, any prospective investor should satisfy themselves that they have a sufficient understanding of these matters, including the risks described in this Section 5 of the Prospectus, and should consider whether Shares are a suitable investment for them having regard to their own investment objectives, financial circumstances and taxation position before investing in Afterpay. If you do not understand any part of this Prospectus, or are in any doubt as to whether or not to invest in New Shares, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, taxation adviser, financial adviser or other independent and qualified professional adviser before deciding whether to invest.

5.2 Risks specific to an investment in Afterpay

5.2.1 Loss of key retail merchant relationships

Afterpay depends on continued relationships with its current significant retail merchant clients. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. Afterpay's contracts with retail merchant clients can be terminated for convenience on relatively short notice by either party, and so Afterpay does not have long term contracted revenues.

There is a risk that Afterpay may lose retail merchant clients for a variety of reasons including a failure to meet key contractual or commercial requirements, or retail merchant clients shifting to in-house solutions or competitor service providers.

Although Afterpay does not currently depend on any one retail merchant for more than approximately 20% of its revenue, the Group's business is still at a relatively early stage and retail merchant client revenue is not as diversified as it might be for a more mature business. The loss of even a small number of Afterpay's key retail merchant clients may materially and adversely impact Afterpay's revenue and profitability, and increase marketing expenses to sign up new retail merchant clients to replace those lost. Depending on the reason for the loss of a key retail merchant client, it may also have a negative impact on Afterpay's reputation with other retail merchant clients and with end-customers.

There is also a risk that new agreements formed with retail merchant clients in the future may be less favourable to Afterpay, including in relation to pricing and other key terms, due to unanticipated changes in the market in which Afterpay operates.

5.2.2 Reliance on arrangements with Touchcorp Limited

Afterpay depends heavily on its arrangements with Touchcorp. These arrangements are primarily governed by the Software Development and Licence Agreement, which sets out both Afterpay's and Touchcorp's ownership rights in relation to the respective business' intellectual property and technology. Afterpay relies on Touchcorp to continue to develop Afterpay's software and systems, provide hardware and support, and to assist with integration of new retail merchants onto the Afterpay system.

Afterpay also relies on Touchcorp in relation to the ongoing day-to-day operations of Afterpay's business, including processing of all Afterpay transactions.

5.2.3 Exposure to end-customer bad debts

Afterpay's profitability depends on its ability to put in place and optimise its systems and processes to make predominantly accurate, real time decisions in connection with the end-customer transaction approval process. End-customer non-payment is a major component of Afterpay's expenses at present, and Afterpay is currently exposed to end-customer bad debts as a normal part of its operations. However, excessive exposure to bad debts through customers failing to meet their repayments to Afterpay will materially and adversely impact Afterpay's profitability. See section 4.8 for additional detail regarding Afterpay's historical exposure to bad and doubtful debts including provisions for impairment at 31 December 2015.

Afterpay also has exposure, although much more limited, to the potential insolvency of a retail merchant client to which Afterpay has advanced funds. Exposure occurs in the period of time between the advance of funds to a retail merchant client for a customer's purchase of goods, and the retail merchant shipping the goods to the end-customer (at which point Afterpay is entitled to payment from the end-customer). This period is typically only a few days at most, and so is unlikely to represent a material risk.

5.2.4 Additional requirements for capital

As Afterpay's current business grows and new lines of business are developed, Afterpay will require additional funding to support its instalment payments receivables book and working capital. Although equity funding assuming successful completion of the Offer would be more than sufficient for the current business needs, Afterpay does intend to seek debt funding in the future to finance a potential expansion of its instalment payments receivables book. There is no assurance such debt facilities will be obtained when required or obtained on reasonable terms, and there is a risk that debt funding may not be available in sufficient amounts particularly as Afterpay is currently making a net loss, currently has limited tangible assets that could be offered as security to a lender, and after completion of the Offer some or all of the additional funding capital raised will tend to be converted into end-customer receivables in the ordinary operation of the business. Further, if Afterpay elects to finance an expansion by way of debt facilities, such facilities would likely introduce financing risks such as interest rate risk and refinancing risk.

Afterpay could seek to ensure that its ability to fund the requirements of retail merchants and their end-customers is maintained by delaying the on-boarding of new retail merchants or by adjusting its processes so as to approve requests for instalment payment terms only from higher quality end-customers. However, this would risk damage to Afterpay's reputation as a reliable source of instalment payment terms to end-customers, which could in turn harm the long term prospects of its business.

5.2.5 Loss of key management personnel

Afterpay's ability to effectively execute its growth strategy depends upon the performance and expertise of its key management personnel. The personnel discussed in sections 6.1 and 6.2 are a highly experienced team with a depth of experience in, and knowledge of, Afterpay's business and the environment in which it operates. The loss of these key management personnel, or any delay in their replacement, may adversely affect Afterpay's future financial performance.

5.2.6 Failure to increase transaction volumes, customer and retail merchant numbers or establish its brand

Afterpay is currently in the early stages of establishing its presence in the Australian market, and its ability to profitably scale its business is heavily reliant on increases in transaction volumes and in its customer and retail merchant base to increase revenues and profits. Data from increasing transaction volumes will also better optimise the Company's systems and ability to make real time end-customer repayment capability decisions. Afterpay considers that establishing, expanding and maintaining the Afterpay brand is important to growing its retail merchant client and end-customer bases.

Failure to expand in this way may materially and adversely impact Afterpay's ability to achieve economies of scale and to optimise its systems, and may therefore adversely impact Afterpay's ability to improve its future profitability.

Afterpay's growth strategy may also include the introduction of new services or technologies. There is a risk that expansion initiatives may result in additional costs and risks, or may not deliver the outcomes intended. Afterpay's strategy depends on increasingly expanding its end-customer and retail merchant bases, which may not eventuate as hoped.

5.2.7 Competitors and new market entrants

Afterpay considers it has a competitive advantage in being one of the first to provide an interest free 'buy now, pay later' service to the Australian retail market. However, there is always a risk of new entrants in the market which may disrupt Afterpay's business and market share. Existing competitors as well as new competitors entering the industry, may engage in aggressive customer acquisition campaigns, develop superior technology offerings or consolidate with other entities to deliver enhanced scale benefits. Such competitive pressures may materially erode Afterpay's market share and revenue, and may materially and adversely impact Afterpay's revenue and profitability.

A general increase in competition may also require Afterpay to increase marketing expenditure or offer lower fees to retail merchant clients, which would decrease profitability even if Afterpay's market share does not decrease.

5.2.8 Failures or disruptions to Afterpay's technology systems and communication networks

Afterpay depends on the constant real-time performance, reliability and availability of its technology system and third-party communication networks. There is a risk that these systems may fail to perform as expected or be adversely impacted by a number of factors, some of which may be outside the control of Afterpay, including damage, equipment faults, power failure, fire, natural disasters, computer viruses and external malicious interventions such as hacking or denial-of-service attacks. Events of that nature may cause part or all of Afterpay's technology system and/or the communication networks used by Afterpay to become unavailable. Afterpay's operational processes and contingency plans may not adequately address every potential event. This may disrupt transaction flow and adversely impact Afterpay's financial performance and reputation.

There is a risk that repeated failures to keep Afterpay's technology available may result in a decline in customer and retail merchant numbers or retail merchants cancelling their contracts with Afterpay. This may materially and adversely impact Afterpay's financial performance, including a reduction in revenue from completed transactions and an increase in the costs associated with servicing customers through the disruption, as well as negatively impacting Afterpay's reputation.

5.2.9 Employee recruitment risk and retention

Afterpay's ability to effectively execute its growth strategy depends upon the performance and expertise of its staff. Afterpay relies on experienced managerial and highly qualified technical staff to develop and operate its technology and to direct operational staff to manage the operational, sales, compliance and other functions of its business.

There is a risk that Afterpay may not be able to attract and retain key staff or be able to find effective replacements in a timely manner. The loss of staff, or any delay in their replacement, could impact Afterpay's ability to operate its business and achieve its growth strategies including through the development of new systems and technology.

There is a risk that Afterpay may not be able to recruit suitably qualified and talented staff in a time frame that meets the growth objectives of Afterpay. This may result in delays in the integration of new systems, development of technology and general business expansion, which may adversely impact Afterpay's revenue and profitability.

There is also a risk that Afterpay will be unable to retain existing staff, or recruit new staff, on terms of retention that are as attractive to Afterpay as past agreements. This would adversely impact employment costs and profitability.

5.2.10 Compliance with laws, regulations and industry compliance standards

Afterpay is subject to a range of legal and industry compliance requirements that are constantly changing. This includes privacy laws, data protection laws and contractual conditions.

In addition, there is potential that Afterpay may become subject to additional legal or regulatory requirements if its business, operations, strategy or geographic reach expand in the future. This may potentially include credit licensing, financial services licensing, or other licensing or regulatory requirements or similar limitations on the conduct of business.

There is a risk that additional or changed legal, regulatory or licensing requirements, and industry compliance standards, may make it uneconomic for Afterpay to continue to operate, or to expand in accordance with its strategy. This may materially and adversely impact Afterpay's revenue and profitability, including by preventing its business from reaching sufficient scale.

There is also a risk that if Afterpay fails to comply with these laws, regulations and industry compliance standards, this may result in significantly increased compliance costs, cessation of certain business activities or the ability to conduct business, litigation or regulatory enquiry or investigation and significant reputational damage.

5.2.11 Exposure to potential security breaches and data protection issues

Through the ordinary course of business, Afterpay collects a wide range of confidential information. Cyber-attacks may compromise or breach the technology platform used by Afterpay to protect confidential information.

There is a risk that the measures taken by Afterpay may not be sufficient to detect or prevent unauthorised access to, or disclosure of, such confidential information. Any data security breaches or Afterpay's failure to protect confidential information could result in the loss of information integrity, or breaches of Afterpay's obligations under applicable laws or agreements, each of which may materially adversely impact the Afterpay's financial performance and reputation.

5.2.12 Activities of fraudulent parties

Afterpay is exposed to risks imposed by fraudulent conduct, including the risks associated with end-customers attempting to circumvent Afterpay's system and repayment capability assessments. There is a risk that Afterpay and its technology partners such as Touchcorp may be unsuccessful in defeating fraud attempts, resulting in a higher than budgeted cost of fraud and end-customer non-payment.

Afterpay guarantees payment to retail merchant clients and accepts the responsibility associated with minimising fraudulent activity and bears all costs associated with such fraudulent activity. Fraudulent activity may result in Afterpay suffering losses due to fraud, a materially adverse impact to Afterpay's reputation and bearing certain costs to rectify and safeguard business operations and Afterpay's systems against fraudulent activity.

5.2.13 Protection and ownership of technology and intellectual property

The business of Afterpay depends on its ability to commercially exploit its technology and intellectual property, including its technological systems and data processing algorithms. Afterpay relies on laws relating to trade secrets, copyright and trademarks to assist in protecting its proprietary rights. However, there is a risk that unauthorised use or copying of Afterpay's software, data, specialised technology or platforms will occur. In addition, there is a risk that the validity, ownership or authorised use of intellectual property relevant to Afterpay's business may be successfully challenged by third parties. This could involve significant expense and potentially the inability to use the intellectual property in question, and if an alternative cost-effective solution were not available, it may materially adversely impact Afterpay's financial position and performance. Such disputes may also temporarily adversely impact Afterpay's ability to integrate new systems which may adversely impact Afterpay's revenue and profitability.

There is also a risk that Afterpay will be unable to register or otherwise protect new intellectual property it develops in the future, or which is developed on its behalf by contractors including Touchcorp. In addition, competitors may be able to work around any of the intellectual property rights used by Afterpay, or independently develop technologies or competing payment products or services that are not protected by Afterpay's intellectual property rights. Afterpay's competitors may then be able to offer identical or very similar services or services that are otherwise competitive against those provided by Afterpay, which could adversely affect Afterpay's business.

5.2.14 Ability of the Afterpay technology to integrate various retail merchant platforms

Afterpay uses and relies on integration with third party systems and platforms, particularly websites and other retail merchant systems. The success of Afterpay's services, and its ability to attract additional end-customers and retail merchant clients, depends on the ability of its technology and systems to integrate into and operate with various third party systems and platforms. In addition, as these systems and platforms are regularly updated, it is possible that when such updates occur it could cause Afterpay's services to not operate as efficiently as previously. This will require Afterpay to change the way its system operates which may take time and expense to remedy.

5.2.15 Afterpay technology may be superseded by other technology or changes in business practice

Afterpay participates in a competitive environment. IT systems are continuing to develop and are subject to rapid change, while business practices continue to evolve. Afterpay's success will in part depend on its ability to offer services and systems that remain current with the continuing changes in technology, evolving industry standards and changing consumer preferences. There is a risk that Afterpay will not be successful in addressing these developments in a timely manner, or that expenses will be greater than expected. In addition, there is a risk that new products or technologies (or alternative systems) developed by third parties will supersede Afterpay's technology. This may materially and adversely impact Afterpay's revenue and profitability.

5.2.16 Government regulation and legal requirements

Afterpay is subject to Anti-Money Laundering/Counter Terrorism Financing Act in relation to merchant customers. Outside of this Afterpay is not currently subject to any other specific laws or regulations other than the laws and regulations applicable to business generally. There is a risk that a number of laws and regulations may be adopted with respect to Afterpay's operations covering issues such as user privacy, pricing, the content and quality of products and services, intellectual property rights and information security which could limit the proposed scope of activities of Afterpay.

5.2.17 Capacity constraints

Continued increases in transaction volumes may require Afterpay to expand and adapt its network infrastructure to avoid interruptions to Afterpay's systems and technology. Any unprecedented transaction volumes may cause interruptions to Afterpay's systems and technology, reduce the number of completed transactions, increase expenses, and reduce the level of consumer service, and these factors may potentially adversely impact Afterpay's financial performance.

5.2.18 Reliance on internet

Afterpay will depend on the ability of its merchants and customers to access the internet. Should access to the internet be disrupted or restricted, usage of Afterpay's services may be adversely impacted.

5.2.19 Banking performance

Afterpay relies on online payment gateways, banking and financial institutions for the validation of bank cards, settlement and collection of payments. Any failures or disruptions to such platforms and technology may impact the financial performance of Afterpay.

5.2.20 Afterpay may suffer reputational damage

Maintaining the strength of Afterpay's reputation is important to retaining and increasing its end customer base and its retail merchant client base, maintaining its relationships with partner companies, including Touchcorp, and other service providers and successfully implementing Afterpay's business strategy. There is a risk that unforeseen issues or events may adversely impact Afterpay's reputation. This may adversely impact the future growth and profitability of Afterpay.

Afterpay's reputation is also closely linked to the timely and accurate provision of services to end-customers. There is a risk that Afterpay's actions and the actions of Afterpay's suppliers and merchants may adversely impact Afterpay's reputation. Any factors that diminish Afterpay's reputation could result in customers, consumers or other parties ceasing to do business with Afterpay, impede its ability to successfully provide the Afterpay service, negatively affect its future business strategy and materially and adversely impact Afterpay's financial position and performance.

5.2.21 Exposure to adverse macroeconomic conditions

Afterpay's business depends on end-customers transacting with retail merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macroeconomic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence customer spending and suppliers' and retailers' focus and investment in outsourcing solutions. This may subsequently impact Afterpay's ability to generate revenue. Additionally, in weaker economic environments, consumers may have less disposable income to spend and so may be less likely to purchase products by utilising Afterpay's services and bad debts might increase.

5.2.22 Concentration of shareholding

After the Offer is completed, the existing major Shareholders in Afterpay will hold approximately 60.6% of the total shares on issue in Afterpay and will continue to be able to exert significant influence over Afterpay, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters submitted to the vote of shareholders. There is a risk that the interests of the existing major Shareholders may be different from the interests of investors who acquire New Shares under the Offer. There is also a risk that the continued shareholding of the existing major Shareholders, in particular until the end of the escrow period, may cause or contribute to a limited liquidity in the market for shares, which could affect the market price at which other shareholders are able to sell.

There is also a risk that a significant sale of shares by existing shareholders after the end of the escrow period, or the perception that such a sale might occur, could adversely impact the price of shares. The continued shareholding of existing major Shareholders may also negatively impact the timing and effectiveness of any capital raising activities of Afterpay, which could adversely impact Afterpay's cost of capital and financial position.

5.2.23 Risk of litigation, claims and disputes

Afterpay may be subject to litigation and other claims and disputes in the course of its business, including contractual disputes, employment disputes, indemnity claims, and occupational and personal claims. Even if Afterpay is ultimately successful, there is a risk that such litigation, claims and disputes could materially and adversely impact Afterpay's operating and financial performance due to the cost of settling such claims, and affect Afterpay's reputation.

General investment risks

5.2.24 Potential fluctuations in the price of Shares

There are risks associated with any listed company investment. Some of these risks are listed below.

The price at which Shares are quoted on the ASX may be subject to fluctuations in response to factors such as:

- Changes to government fiscal, monetary or regulatory policy, legislation or the regulatory environment in which Afterpay operates;
- Changes in financial outcomes estimated by securities analysts;
- Changes in the market valuation of other comparable companies and the nature of the market in which Afterpay operates;
- Announcements by Afterpay or its competitors of significant acquisitions;
- An event of force majeure, such as terrorism, fire, flood, earthquake, war or strikes;
- Fluctuations in the domestic and international market for listed stocks;
- Fluctuations in general domestic and global economic conditions, including interest rates and exchange rates; and
- Other events or factors which may be beyond Afterpay's control.

There is a risk that broader market and industry factors may materially and adversely impact the price of the Shares, regardless of Afterpay's operating performance and may cause the Shares to trade at prices below the Offer Price. There is no assurance that the price of the Shares will increase following the quotation on the ASX.

5.2.25 Liquidity of Shares

There is currently no public market through which the Shares of Afterpay may be sold. There can be no guarantee that an active market in Shares will develop or that the price of Shares will increase. There may be relatively few buyers or sellers of Shares on the ASX at any given time. There is a risk that this increases the volatility of the market price of Shares and the prevailing market price at which Shareholders are able to sell their Shares. This may result in investors under the Offer receiving a market price for their Shares that is less than the Offer Price.

Following completion of the Offer the Escrowed Shareholders will hold approximately 84.8% of the total Shares on issue, which may impact on liquidity. The Escrowed Shareholders either have an existing escrow over their Shares held or have entered into escrow arrangements in relation to all the Shares they hold (other than any Shares they acquired under the Offer) immediately following Completion of the Offer, as set out in Section 9.5. There is a risk that the absence of any trading in Shares held by the Escrowed Shareholders during this period may cause, or at least contribute to, limited liquidity in the market for the Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares, and also the time taken to sell all or part of their shareholding.

Following release from escrow, Shares held by the Escrowed Shareholders may be freely traded on the ASX. There is a risk that a significant sale of Shares by an Escrowed Shareholder, or the perception that such a sale has occurred or might occur, could adversely impact the price of the Shares.

5.2.26 Exposure to general economic and financial market conditions

General domestic and global economic conditions may adversely impact the price of Shares for reasons outside Afterpay's control. This includes increases in unemployment rates, negative consumer and business sentiment and an increase in interest rates, amongst other factors. There is a risk that Shares may trade on the ASX at a price below their Offer Price for a wide variety of reasons, not all of them related to the financial performance of the Company.

5.2.27 Risk of Shareholder dilution

In the future, Afterpay may elect to issue new Shares in connection with future fundraising. While Afterpay will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital it is able to issue within a rolling 12-month period (other than where certain exceptions apply), there is a risk that the future issue of additional equity could result in dilution for Shareholders.

5.2.28 Exposure to changes in tax rules or their interpretations

Tax rules or their interpretation for both Afterpay and its Shareholders may change.

There is a risk that both the level and basis of taxation may change both in Australia and in foreign jurisdictions where Afterpay currently transacts, as well as new markets it may enter in the future. The tax considerations of investing in the Shares may differ for each Shareholder. Each prospective investor is encouraged to seek professional tax advice in connection with any investment in Afterpay.

5.2.29 Unforeseen risk

There may be other risks of which the Directors are unaware at the time of issuing this Prospectus which may impact Afterpay, its operations and/or the valuation and performance of Shares. This is particularly so for an early stage business such as Afterpay's, where there is limited operating history and experience. The above list of key risks ought not to be taken as exhaustive of the risks faced by Afterpay or by investors in Afterpay. The above risks and others not specifically referred to above may in the future materially affect Afterpay, its financial performance or the value of Shares.

06 Key individuals, interests and benefits

6.1 Board of Directors

At the date of listing (Listing Date) the Board will comprise five members, consisting of the Executive Chairman, the Managing Director, two Independent, Non-executive Directors and one Non-executive Director who is Chairman of Touchcorp, a significant shareholder in the Company, and is therefore not considered independent.

The Directors of the Company bring to the Board a variety of skills and experience, including industry and business knowledge, financial management and corporate governance experience. Table 6 provides further details on the Board.

Table 6: Board of Directors

DIRECTOR	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
 **Anthony Eisen** *Executive Chairman*	Anthony has over 20 years' experience in investing, maintaining public company directorships and providing corporate advice across a variety of sectors with a special focus in financial services and technology. Prior to co-founding Afterpay, Anthony was the Chief Investment Officer at Guinness Peat Group plc (GPG) and was responsible for maximising shareholder value in a large, diversified portfolio of mainly publicly listed companies in Australasia and the United Kingdom. He was actively involved in a number of financial services, software and technology companies in which GPG was a major shareholder, including Australian Wealth Management, Tower Australia, ClearView Wealth, eServGlobal, Touchcorp and Solution 6. Prior to joining GPG, Anthony was involved in investment banking, specialising in mergers and acquisitions and providing corporate advice, having practiced extensively in Australia and the United States (with Credit Suisse, Caliburn Partnership and Hambros). Anthony commenced his professional career as an accountant in Australia (with Price Waterhouse). Anthony is currently a director of Foundation Life (N.Z) Limited. Anthony was previously a director of Onthehouse Holdings Limited, eServGlobal Limited, Turners & Growers Limited, MMC Contrarian Limited, ClearView Wealth Limited, Tower Australia Limited (Alternate) and Capral Limited. Anthony holds a Bachelor of Commerce (double major Accounting and Finance) and is a member of the Institute of Chartered Accountants in Australia.
 **Michael Jefferies** *Non-executive Director*	Michael Jefferies was appointed a director in August 2015. He is the Chairman of Touchcorp Limited, an ASX listed company with which Afterpay has significant shareholding and operational relationships. Michael is a chartered accountant with extensive experience in finance and investment including more than 20 years as an executive of Guinness Peat Group plc, an international investment group listed on the major stock exchanges in London, Australia and New Zealand. In addition to Touchcorp, he is also a Non-executive Director of RESIMAC Limited and Ozgrowth Limited and has previously been a director of a number of listed public companies in Australia and New Zealand including ClearView Wealth Limited, Tower Australia Limited, Metals X Limited and Tower Limited (New Zealand). Michael has over 30 years of public company and finance experience.

DIRECTOR	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
 **Nicholas Molnar** *Managing Director*	Nicholas Molnar is a Co-Founder and Managing Director of Afterpay. Nicholas has extensive experience in online retail, having launched the leading American online jeweller, Ice.com, into Australia under the local brand Iceonline.com.au. Given Nicholas' family has been in the Australian jewellery industry for the past 30 years, he was able to combine specialised local product knowledge with technical online marketing expertise to exploit on the gap in the market. Nicholas successfully grew Ice in Australia to become the largest online-only jewellery and watch retailer. Prior to launching Ice, Nicholas was an Investment Analyst at venture capital fund M. H. Carnegie & Co., where he was primarily responsible for growth stage investment opportunities in the technology sector. Nicholas holds a Bachelor of Commerce from Sydney University.
 **David Hancock** *Independent Non-executive Director*	David was appointed an independent non-executive director in March 2016. David has over 25 years of broad experience in financial services. This experience includes being Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities. Prior to that he served in senior investment banking roles at JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations in Debt and Equity Markets. He has served on a number of boards and is currently a director and advisor to Tower Insurance Limited and a board member of the Insurance Council of New Zealand.
 **Clifford Rosenberg** *Independent Non-executive Director*	Clifford has spent more than 20 years working at digital companies leading innovation and change in the industry both as an entrepreneur and senior executive. Clifford has been a senior executive at LinkedIn for six and half years and currently serves as the Managing Director of LinkedIn for South East Asia, Australia and New Zealand. Prior to LinkedIn, Clifford was Managing Director at Yahoo Australia and New Zealand, and previously the founder and Managing Director of iTouch Australia and New Zealand, one of the biggest mobile content and application service providers in Australia. Prior to iTouch Clifford was the head of strategy for Vodafone Australasia. Clifford is also a non-executive director of ASX listed companies Nearmap Ltd and Pureprofile Ltd. Clifford has a Bachelor of Business Science (Honours) degree and a Master of Science in Management.

The composition of the Board committees and details of its key corporate governance polices are set out in Section 6.8.

Each Director above has confirmed to the Company that they anticipate being able to perform their duties as a Non-executive Director or Executive Director of the Company, as the case may be, without constraint from other commitments.

The Board has considered the Company's immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board represents an appropriate range of experience, qualifications and skills.

6.2 Senior management team

Table 7 below provides details around the senior management team of Afterpay.

Table 7: Senior management team

EXECUTIVE	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
Anthony Eisen *Executive Chairman*	See Table 6 above.
Nicholas Molnar *Managing Director*	See Table 6 above.
 **Richard Harris** *Chief Finance & Risk Officer*	Richard has 15 years' experience in retail banking including senior roles in Australia, Japan, Hong Kong and Vietnam. After completing his graduate programme at Westpac, Richard joined the Commonwealth Bank of Australia (CBA) where key roles included General Manager Performance and Productivity for the Retail Bank and the Country Head for the CBA in Japan. Most recently at CBA Richard was the General Manager for the Self-Managed Superannuation Fund Segment. In his time with CBA Richard was also seconded to Vietnam International Bank (VIB), where CBA is a strategic shareholder. At VIB Richard was a member of the banks Executive Committee and the Head of the Retail Bank where he led a team of 2,000 staff across 160 branches, Digital Banking, Product, Marketing and Call Centres. Richard holds a bachelor of Economics (double major International Trade + Banking & Finance) and has completed a Global Advanced Management Programme from the University of California – Berkeley (Haas School of Business)
 **David Whiteman** *Director of Product*	David has over 15 years' experience leading product and marketing in technology businesses. Before joining Afterpay, David was CEO and co-founder of Hynt.com, a recommendations and native advertising platform for e-commerce stores. Prior to that he was Director of Product & Marketing for Getprice, Australia's leading online comparison shopping engine. David also spent 3 years with Google as Head of Market Insights, working across Google's entire portfolio of industry verticals in Australia and New Zealand. David holds a Bachelor of Commerce from the University of the Witwatersrand.

EXECUTIVE	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
 **Fabio de Carvalho** *Director of Strategic Partnerships*	Fabio is the Director of Strategic Partnerships at Afterpay. Fabio has 8 years' experience in sales interacting with retail merchants across several verticals including ecommerce, gaming and legal. Prior to joining Afterpay, Fabio lead the Channel Partnerships and the SMB telesales team for eBay Australia. Fabio was actively involved on building and developing relationships with local and global ecommerce platforms and engaging with medium to large size Australian retailers. Prior to eBay, Fabio worked for 3.5 years at PayPal where he spent two years supporting from a product, client and sales perspective the Payflow Gateway. This included leading the relationships with clients such as Dominos, Flight Centre, First Data and others.
 **Paz Vlahodimos** *Head of Finance and Administration*	Paz has 20 years of professional experience in financial and operational roles in Australia and Europe. More recently, he has worked with Touchcorp and Afterpay after returning to Australia. He formerly held senior executive roles with SCA Group and PMP Group. Paz is a Certified Practising Accountant and holds a Bachelor of Economics (Accounting Major)

6.3 Interests and benefits

This Section 6 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out in this Prospectus, no:

- Director or proposed Director of the Company
- Person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus
- Promoter of the Company or
- Underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer

holds at the time of lodgement of the Prospectus with ASIC, or has held in the two years preceding lodgement of this Prospectus with the ASIC, any interest in:

- The formation or promotion of the Company or
- Property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer or
- The Offer

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of the Company.

6.4 Interests of advisers

The Company has engaged the following professional advisers in relation to the Offer:

- Bell Potter and Wilson HTM have acted as Joint Lead Managers to the Offer and the fees payable to Bell Potter and Wilson HTM pursuant to the Underwriting Agreement are described in in Section 9.2;
- Baker & McKenzie has acted as Australian Legal Adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately $210,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Baker & McKenzie in accordance with its normal time-based rates
- Ernst & Young has acted as the Investigating Accountant and has performed financial and tax due diligence services and provided the Independent Limited Assurance Report in Section 8 in relation to the Financial Information. The Company has paid, or has agreed to pay, Ernst & Young, approximately $235,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Ernst & Young under time-based charges

The Company will pay these amounts, and other expenses of the Offer, out of funds raised under the Offer or cash otherwise available to the Company (or one of its subsidiaries). Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.4.

6.5 Directors' interests and remuneration

6.5.1 Managing Director and Executive Chairman

The Company has entered into agreements with Nicholas Molnar in respect of his employment as Managing Director of the Company and Anthony Eisen in respect of his employment as Executive Chairman of the Company. Refer to Section 6.6 for further details.

6.5.2 Non-executive Director remuneration

Under the Constitution, the Directors decide the total amount paid to each Director as remuneration for their services as a Director to the Company. However, under the ASX Listing Rules, the total amount paid to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company's general meeting. This amount is currently $700,000. Annual Directors' fees currently agreed to be paid by the Company to Non-executive Directors are $60,000 per annum plus sub-committee fees. The Executive Directors are not entitled to be paid annual Directors' fees.

6.5.3 Deeds of access, indemnity and insurance for Directors

Access

The Company has entered into deeds of access, indemnity and insurance with each Director which contain rights of access to certain books and records of the Company.

Indemnification

Under the Constitution, the Company is required to indemnify all Directors and officers, past and present, against all liabilities allowed under law. Under the deed of access, indemnity and insurance, the Company indemnifies parties against all liabilities to another person that may arise from their position as an officer of the Company or its subsidiaries to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Insurance

Under the Constitution, the Company may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law and under the deed of access, indemnity and insurance, the Company must maintain insurance cover for each Director for the duration of the access period.

6.5.4 Directors' interests in Shares and other securities

Directors are not required under the Constitution to hold any Shares in the Company. The Directors (and their associates) are entitled to apply for Shares in the Offer. The table below sets out the Directors' (and their associated entities') direct and indirect interests in the Company's Shares on Completion of the Offer.

Director	Shares held on Completion of the Offer (number)	Shares held on Completion of the Offer (%)
Nicholas Molnar(1)	25,000,000	15.2%
Anthony Eisen	25,000,000	15.2%
Michael Jefferies(2)	250,000	0.2%
David Hancock(3)	2,500,000	1.5%
Clifford Rosenberg(4)	1,000,000	0.6%

Notes:

1. 25,000,000 Shares are held by Nicholas Molnar Pty Ltd as trustee for Nicholas David Family Trust, in which Nicholas Molnar is a beneficiary.
2. 250,000 Shares are held by Michael and Julie Jefferies as trustees for The Jefferies Super Fund, in which Michael Jefferies and his wife, Julie Jefferies, are beneficiaries.
3. 2,500,000 Shares are held by David Hancock's wife, Fiona Kate Hancock.
4. 1,000,000 Shares are held by Clifro Pty Ltd as trustee for Cliffro Trust, in which Clifford Rosenberg is a beneficiary.

In addition to Shares held by Directors as set out above, the table below sets out the Directors' (and their associated entities') direct and indirect interests in the Company's Options on Completion of the Offer. Each Option will entitle the Optionholder to be provided with one Share, and may, subject to applicable vesting conditions, be exercised any time after the date of issue up until the expiry date. The Options held by Directors as set out in the table below were all issued pursuant to the Afterpay Employee Option Plan.

The Options held by Directors are all subject to the default vesting conditions under the Employee Option Plan (requiring continued employment, with vesting to occur in three separate tranches over a three year period) and an additional vesting condition that the initial public offer of the Company is successful and that the Company is admitted to the official list of ASX on or before 30 June 2016. Refer to Section 6.7.2 for details of the Afterpay Employee Option Plan.

	Nicholas Molnar	Anthony Eisen	Michael Jefferies	David Hancock	Clifford Rosenberg	Clifford Rosenberg
Number of Options	1,500,000	1,500,000	200,000	200,000	700,000	200,000
Exercise Price	$1.00	$1.00	$1.00	$1.00	$0.20	$1.00
Expiry Date	31 December 2020	31 December 2020	31 December 2020	31 December 2020	1 September 2020	31 December 2020

6.6 Management interests and remuneration

The Company's Managing Director, Executive Chairman and other members of senior management are employed under individual contracts of employment with the Company. The contracts set out:

- The individual's total fixed compensation, including fixed cash remuneration and the Company's superannuation contribution
- Eligibility to participate in any incentive scheme (e.g. annual bonuses or securities ownership plans) which may be implemented by the Company
- Notice and termination provisions and
- Employee entitlements including leave

The Company makes contributions with respect to the senior executives to complying superannuation funds in accordance with relevant superannuation legislation and the individual contracts of employment.

Managing Director employment contract

The Company has entered into an executive services agreement with Nicholas Molnar to govern his employment with the Company as Managing Director.

Nicholas will receive annual fixed remuneration of $250,000 (exclusive of superannuation). Nicholas will also be eligible to participate in any incentive scheme that may be implemented by the Company.

Nicholas may terminate his employment contract by giving three months' notice in writing. The Company may terminate by giving three months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other similar circumstances, the Company may terminate Nicholas' executive services agreement immediately without notice.

Upon the termination of Nicholas' executive services agreement, he will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

Executive Chairman employment contract

The Company has entered into an executive services agreement with Anthony Eisen to govern his employment with the Company as Executive Chairman.

Anthony will receive annual fixed remuneration of $150,000 (exclusive of superannuation). Anthony will also be eligible to participate in any incentive scheme that may be implemented by the Company.

Anthony may terminate his employment contract by giving three months' notice in writing. The Company may terminate by giving three months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other circumstances, the Company may terminate Anthony's executive services agreement immediately without notice.

Upon the termination of Anthony's executive services agreement, he will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

6.7 Employee Incentive Arrangements

6.7.1 Employee Incentive Plan

The Company has adopted the Employee Incentive Plan in order to assist in the motivation and retention of selected Company employees. The Employee Incentive Plan is designed to align the interests of eligible employees more closely with the interests of the Company by providing an opportunity for eligible employees to receive an equity interest in the Company. Under the Employee Incentive Plan, eligible employees may be offered Performance Rights, Options, deferred Share awards or exempt Share awards which may be subject to vesting conditions set by the Board. As at the Prospectus Date, no Awards (as defined below) have yet been granted by the Company under the Employee Incentive Plan.

The key terms of the Employee Incentive Plan are as follows:

Awards

Under the Employee Incentive Plan, the Company may offer or issue to eligible employees:

- Performance Rights – Performance Rights are a right to be issued or provided with a fully paid ordinary Share in the Company at nil issue price upon specific vesting conditions being achieved
- Options – Options are a right to be issued or provided with a Share upon payment of an exercise price and which can only be exercised if specific vesting conditions are achieved
- Deferred Share awards – deferred Share awards are Shares issued to employees:
  - who elect to receive Shares in lieu of any wages, salary, Director's fees, or other remuneration or
  - by the Company in its discretion, in addition to their wages, salary and remuneration, or in lieu of any discretionary cash bonus or other incentive payment

- Exempt Share awards – exempt Share awards are Shares issued for no consideration or at an issue price which is a discount to the market price with the intention that up to $1,000 (or such other amount which is exempted from tax under the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 from time to time) of the total value or discount received by each employee will be exempt from tax and

(together, **Awards**).

Eligible employees

Awards may be granted at the discretion of the Board to any person who is an employee, officer, Director or consultant of a Group Company.

Price

The Board has discretion to determine the issue price and/or exercise price for the Awards.

Vesting and exercise of Awards

The Awards held by a participant will vest in and become exercisable by that participant upon the satisfaction of any vesting conditions specified in the offer and in accordance with the rules of the Employee Incentive Plan. Vesting conditions may be waived at the discretion of the Board.

Change of control

In the event a takeover bid is made to acquire all of the issued Shares of the Company, or a scheme of arrangement, selective capital reduction or other transaction is initiated which has an effect similar to a full takeover bid, the Board may waive unsatisfied vesting conditions in relation to some or all Awards. Further, if a takeover bid is made to acquire all of the issued Shares of the Company, participants may accept the takeover bid in respect of any Awards (other than exempt Share awards) which they hold notwithstanding the restriction period in respect of those Awards has not expired.

Claw-back

If any vesting conditions of an Award are mistakenly waived or deemed satisfied when in fact they were not satisfied, then in accordance with the terms of the Employee Incentive Plan, the Board may determine that the relevant Awards expire (if not yet exercised), or it may otherwise recover from the participant some or all Shares issued upon exercise of the Awards or any proceeds received from the sale of those Shares.

Variation of Share capital

If prior to the exercise of an Award, the Company undergoes a reorganisation of capital or bonus issue, the terms of the Awards will be changed to the extent necessary to comply with the ASX Listing Rules.

6.7.2 Afterpay Employee Option Plan

As at the Prospectus Date, the Company has on issue 14,475,000 Options granted under the Afterpay Employee Option Plan adopted by the Company on 29 October 2015 to eligible employees, contractors or directors of a Group Company.

The Employee Option Plan will continue to apply to the Options issued under it before completion of the Offer. Any new Options issued after completion of the Offer will be issued under and subject to the Employee Incentive Plan outlined in Section 6.7.1.

Other than the 4,300,000 Options held by Directors (details of which are set out in Section 6.5.4) and 150,000 Options held by Paz Vlahodimos, which have an exercise price of $1.00 per Option, the existing Options currently on issue:

- Each have an exercise price of $0.20 per Option;
- Are generally subject to vesting conditions requiring continued employment, with vesting to occur in three separate tranches over a three year period; and
- Expire on 31 December 2020 if not exercised.

6.8 Corporate Governance

This Section explains how the Board will oversee the management of Afterpay's business. The Board is responsible for the overall corporate governance of the Group. The Board monitors the operational and financial position and performance of Afterpay and oversees its business strategy, including approving the strategic goals of Afterpay and considering and approving its annual business plan and the associated budget. The Board is committed to maximising performance, generating appropriate level of Shareholder value and financial return and sustaining the growth and success of Afterpay. In conducting Afterpay's business with these objectives, the Board seeks to ensure that Afterpay is properly managed to protect and enhance Shareholder interests and that Afterpay, its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board have developed and adopted a framework of corporate governance policies and practices, risk management practices and internal controls that it believes appropriate for Afterpay's business.

The main polices and practice adopted by Afterpay, which will take effect from Listing, are summarised below. In addition, many governance elements are contained in the Constitution. Details of Afterpay's key policies and the charters for the Board and each of its committees will be available from Listing at www.afterpay.com.au.

Afterpay is seeking a listing on the ASX. In order to promote investor confidence and to assist companies to meet stakeholder expectations, the ASX Corporate Governance Council has developed and released Corporate Governance Principles and Recommendations, now in its third edition (ASX Recommendations) for Australian listed entities. The ASX Recommendations are not mandatory or prescriptive and the Board is entitled not to adopt a particular recommendation if it considers it inappropriate in the context of the business. However, under the ASX Listing Rules Afterpay will be required to provide a corporate governance statement in its annual report (or by reference in its annual report to the URL of the page on its website where the statement can be viewed), disclosing the extent to which it has followed the ASX Recommendations within the reporting period. Where Afterpay does not follow a recommendation for any part of a reporting period, it must identify the recommendation and provide its reasons for not doing so and what (if any) alternative governance practices it adopted in lieu of the recommendation. Except as set out below, the Board does not anticipate that it will depart from the recommendations of the ASX Corporate Governance Council; however it may do so in the future if it considers such a departure would be reasonable.

6.9 Board appointment and composition

It is the Board's policy that there should, where practicable, be a majority of independent Directors and that the office of Chair be held by an independent Non-executive Director.

The Board Charter sets out guidelines for the purpose of determining independence of Directors in accordance with the ASX recommendations and has adopted a definition of independence that is based on that set out in the ASX Recommendations. The Board considers an independent Director to be a Non-executive Director who is not a member of Afterpay's management and who is free of any business or other relationship that could materially interfere with the independent exercise of their judgement. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

The Board considers that Mr David Hancock and Mr Clifford Rosenberg are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the exercise of the Director's unfettered and independent judgement and are able to fulfil the role of independent Director for the purpose of the ASX Recommendations.

Mr Michael Jefferies is currently considered by the Board not to be independent as he is the chairman of Touchcorp Limited, a substantial shareholder in and significant supplier of services to Afterpay.

Mr Nicholas Molnar and Mr Anthony Eisen are also currently considered by the Board not to be independent as they are both executive Directors of the Company.

Accordingly, at Listing Afterpay will not comply with the ASX Recommendation in relation to having a board with a majority of independent directors or a chair who is an independent non-executive director. The Board considers these departures from the Recommendation are justified given the relatively small size of the Board and the need to preserve funds as an early stage business. If in future an increase in Board size is warranted then the Board will give due regard to the ASX Recommendation and terms of the Board Charter.

6.10 Board Charter

The Board has adopted a written charter to take effect from Listing. The charter sets out:

- the Board composition
- the Board's role and responsibilities
- the relationship and interaction between the Board and management and
- the authority delegated by the Board to management and Board committees

The Board's role is to, among other things:

- represent the interests of Shareholders by overseeing and appraising Afterpay's strategies, polices and performance;
- provide strategic direction for, and approval of, corporate strategy and performance objectives;
- review and ratify systems of risk management, internal compliance and control, codes of conduct and legal and regulatory compliance to ensure appropriate compliance systems and controls are in place;
- monitor senior management's performance and implementation of strategy, and seek to ensure appropriate resources are available;
- approve and monitor the operational and financial position and performance of Afterpay;
- approve and monitor the progress of major capital expenditure, capital management, acquisitions and divestments;
- approve and monitor budgets; and
- oversee control and accountability systems.

Matters which are specifically reserved to the Board or its committees include:

- appointment of the Chair;
- appointment and removal of the Managing Director;
- appointment of Directors to fill a vacancy or as an additional Director;
- establishment of Board committees, their membership and their delegated authorities;
- approval of dividends;
- review of corporate codes of conduct; and
- approval of major capital expenditure, acquisitions and divestments in excess of authority levels delegated to management.

The management function is conducted by, or under the supervision of, the Managing Director as directed by the Board. Management must supply the Board information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. The Board collectively and any individual Director may seek independent professional advice at Afterpay's expense, subject to the reasonable approval of the Chair of the Board and the advice being made available to the Board as a whole.

6.11 Board Committees

The Board may from time to time establish committees to assist in the discharge if its responsibilities. The Board has established an Audit, Risk and Compliance Committee and a Remuneration and Nomination Committee. Membership of Board committees will be based on the needs of Afterpay, relevant legislation, regulatory and other requirements, and the skills and experience of Board members.

6.11.1 Audit, Risk and Compliance Committee

Under its charter, this committee should comprise at least three Directors a majority of whom must be independent where practicable, and all of whom must be non-executive Directors (to the extent that this is practical given the size and composition of the Board from time to time). The committee Chair must not be the Chair of the Company. Members of the committee must comprise of persons who are financially literate and at least one member must be a qualified accountant or other financial professional with appropriate expertise in financial and accounting matters.

From Listing the members of the committee will comprise Michael Jefferies, David Hancock and Clifford Rosenberg, and David Hancock will be the chair of the committee. Each member is financially literate and Michael Jefferies is a qualified accountant.

Accordingly, at Listing the Audit, Risk and Compliance Committee will comply with the ASX Recommendation that all three members be non-executive Directors, a majority of whom are independent.

The primary role of the committee is to assist the Board to fulfil its responsibilities for Afterpay's financial reporting, external audit, risk management systems and internal control structure. This includes:

- engaging in the oversight of Afterpay's financial reporting, internal control, continuous disclosure, financial and non-financial risk and overseeing and reviewing the output of that process;
- assessing the appropriateness and application of Afterpay's accounting policies and principles, and any changes to them, so that they accord with the applicable financial reporting framework;
- reviewing and approving Afterpay's financial reports;
- reviewing all quarterly, half yearly and annual reports with management, advisors and the external auditors (as appropriate), and recommending the applicable accounts' adoption by the Board;
- overseeing the establishment of risk management and internal compliance and control systems and ensuring there is a mechanism for assessing the ongoing efficacy of those systems;
- reviewing the adequacy of risk management procedures to ensure they comply with legal obligations, including to assist the Managing Director and CFO to provide declarations required under Section 295A of the Corporations Act;
- make recommendations to the Board on the appointment and independence of the external auditor and consider the rotation of the audit partner and engagement of the external auditors; and
- meeting periodically with the external auditor and inviting them to attend committee meetings to assist the committee to discharge its obligations.

Pursuant to the charter, it is the policy that the external auditor must be independent and that the external auditor's independence be reviewed on an annual basis.

The committee may invite other Directors, senior managers and representatives of the external auditor to attend committee meetings and may seek advice from external consultants.

6.11.2 Remuneration and Nomination Committee

The charter of this committee provides that the committee should comprise at least three Directors, where practicable a majority of whom (including the Chair) must be independent and all of whom must be non-executive Directors (to the extent that this is practical given the size and composition of the Board from time to time).

From Listing, the Remuneration and Nomination Committee will comprise Michael Jefferies, David Hancock and Clifford Rosenberg, and Clifford Rosenberg will chair the committee.

Accordingly, at Listing the Remuneration and Nomination Committee will comply with the ASX Recommendation that all members be non-executive Directors, a majority of whom are independent.

The role of the committee is to assist the Board with fulfilling its responsibilities to Shareholders and other stakeholders to seek to ensure that Afterpay:

- has coherent and appropriate remuneration policies and practices which enable Afterpay to attract and retain Directors and executives who will create value for Shareholders;
- fairly and responsibly remunerates Directors and executives having regard to the performance of Afterpay, the performance of the executives and the general market environment;
- has polices to evaluate the performance and composition of the Board, individual Directors and executives on (at least) an annual basis with a view to ensuring that Afterpay has a Board of effective composition, size and diversity, expertise and commitment to adequately discharge its responsibilities and duties;
- has adequate succession plans in place (including for the recruitment or appointment of Directors and senior management); and
- has policies and procedures that are effective to attract, motivate and retain appropriately skilled and diverse people that meet Afterpay needs and that are consistent with Afterpay's strategic goals and human resource objectives.

The committee may seek advice and assistance where appropriate (for example, for the purpose of conducting the annual review process) from external consultants.

6.11.3 Diversity Policy

The workforce of Afterpay comprises individuals with diverse skills, backgrounds, perspectives and experiences and this diversity is valued and respected. To demonstrate Afterpay's commitment to developing measurable objectives to achieve diversity and inclusion in its workplace, Afterpay has implemented a Diversity Policy. Afterpay's policy has meritocracy as a guiding principle, and seeks to align Afterpay's management systems with its commitment to continue to develop a culture that values and achieves diversity in its workforce and on its Board.

In its annual report, Afterpay will disclose the measurable objectives for achieving diversity and progress towards the policy's goals, and will also disclose the proportion of women in the whole organisation, women in senior positions and women on the Board.

6.11.4 Continuous Disclosure Policy

Once listed, Afterpay will be required to comply with the continuous disclosure obligations of the ASX Listing Rules and the Corporations Act. Subject to the exceptions in the ASX Listing Rules, Afterpay will be required to disclose any information to the ASX that is not generally available and which a reasonable person would expect to have a material effect on the price or value of Afterpay's securities.

Afterpay is committed to observing its continuous disclosure obligations. Afterpay has adopted a Continuous Disclosure Policy to take effect from Listing which establishes procedures that are aimed at ensuring that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price sensitive information. Under the disclosure policy the Company Secretary will be responsible for managing the Company's compliance with its continuous disclosure obligations.

In addition to being provided to the ASX, continuous disclosure announcements will also be available on the Company's website at www.afterpay.com.au.

6.11.5 Shareholder Communications

The Board's aim is to ensure Shareholders are provided with sufficient information to assess the performance of Afterpay and that Shareholders are informed of all major developments affecting the affairs of Afterpay in accordance with all applicable laws. In addition to Afterpay's continuous disclosure obligations, Afterpay recognises that potential investors and other interested stakeholders may wish to obtain information about Afterpay from time to time and Afterpay will communicate this information regularly to Shareholders and other stakeholders through a range of forums and publications.

The Company is required by law to communicate to Shareholders through the lodgement of all relevant financial and other information with the ASX. This information will also be published on the Company's website at www.afterpay.com.au.

Afterpay's website will also contain information about the Company, including media releases, key policies and charters of the Board and its committees.

6.11.6 Securities Trading Policy

Afterpay has adopted a policy to take effect from Listing for dealing in the Company's Shares which will apply to the Group's Directors, officers, and employees.

The policy outlines the types of conduct in relation to dealing in Shares that are prohibited by the Corporations Act, and establishes procedures to minimise the risk of dealing in Shares in breach of those prohibitions.

Subject to certain exceptions, including severe financial hardship or during a period the Company is complying with heightened disclosure requirements, the policy defines certain "prohibited periods" during which trading by Directors, senior executives, staff involved in Afterpay's financial reporting process and certain other employees ("Restricted Employees") is prohibited. These prohibited periods are:

- Afterpay's financial year end until the business day after Afterpay releases its annual results to the ASX;
- Afterpay's financial half year end until the business day after Afterpay releases its half year results to the ASX; and
- any additional periods determined by the Board from time to time.

Outside of the prohibited periods, Restricted Employees must receive prior clearance for any proposed dealing in Shares. In all instances, buying and selling of Shares is not permitted at any time by any person who possesses price-sensitive information.

In addition to the above restrictions, all Directors and employees are prohibited from:

- short term trading in the Company's securities (such as buying Shares with a view to selling them within 12 months, other than an acquisition of Shares upon exercise of options);
- buying Afterpay Shares with a margin loan; or
- hedging exposure to unvested equity awards.

A copy of Afterpay's security trading policy is available on its website www.afterpay.com.au.

6.13 Risk Management Policy

The identification and proper management of Afterpay's risks are integral to successful execution of Afterpay's strategies. The Board has adopted a risk management policy appropriate for its business. This policy sets out Afterpay's commitment to designing and implementing systems and practices appropriate to minimise and control its risks.

The Board is responsible for overseeing and approving risk management strategy and policies, monitoring risk management, and ensuring that major business risks are identified, consistently assessed and appropriately addressed with the assistance of the Audit, Risk and Compliance Committee.

The Board has in place a system whereby management is required to report as to its assessment of risk management which the Board will review regularly.

6.14 Code of Conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a code of conduct designed to:

- provide a benchmark for professional behaviour throughout the Group;
- support Afterpay's business reputation and corporate image; and
- make Directors and employees aware of the consequences if they breach the Code of Conduct.

The Code of Conduct will take effect from Listing and is to be followed by all employees and officers. The key aspects of this code are to:

- act fairly with honesty and integrity in the best interests of Afterpay and in the reasonable expectations of Shareholders;
- act in accordance with all applicable laws, regulations, and Afterpay policies and procedures;
- have responsibility and accountability for individuals for reporting and investigating reports of unethical practices; and
- use Afterpay's resources and property properly.

The code of conduct sets out Afterpay's policies on various matters including ethical conduct, business conduct, compliance, privacy, security of information and conflicts of interest.

07 Details of the Offer

07. Details of the Offer

7.1 The Offer

This Prospectus relates to an initial public offering of 25.0 million New Shares in Afterpay at an offer price of $1.00 per Share (**Offer Price**). The Offer is expected to raise approximately $25 million (before costs and expenses).

The total number of Shares on issue at Completion of the Offer will be 165 million and all Shares will, once issued, rank equally in all respects with the Shares currently on issue. A summary of the rights attaching to the Shares is set out in Section 9.4.

The minimum subscription for the Offer is 25,000,000 New Shares at Offer Price of $1.00 per New Share to raise a minimum of $25 million. No New Shares will be allotted or issued until the Offer has reached its minimum subscription. If the minimum subscription of the Offer has not been achieved within four months after the Prospectus Date, all Application Monies will be refunded without interest in accordance with Corporations Act.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.2 Structure of the Offer

The Offer comprises:

- **the Broker Firm Offer –** open to Australian resident retail clients of Brokers who have received a firm allocation from their Broker;
- **the Institutional Offer –** an invitation to bid for Shares made to Institutional Investors in Australia and in certain other eligible jurisdictions; and
- **the General Offer –** open to investors who have a registered address in Australia.

Details of the Broker Firm Offer and the allocation policy under it are described in Section 7.10.4

Details of the Institutional Offer and the allocation policy under it are described in Section 7.11.2

Details of the General Offer and the allocation policy under it are described in Section 7.12.4

The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Joint Lead Managers in agreement with the Company having regard to the allocation policies described above. The Company reserves the right in its absolute discretion not to issue any Shares to Applicants under the General Offer. All Applicants under the General Offer must have an eligible residential address in Australia.

The Offer has been fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement, including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement, is set out in Section 9.2.

7.3 Important Dates

Prospectus Date	24 March 2016
Opening Date of Offer	14 April 2016
Closing Date of Offer	26 April 2016
Allotment of Shares (Completion of Offer)	3 May 2016
Expected despatch of Holding Statements	4 May 2016
Shares expected to begin trading on ASX (on a deferred settlement basis)	4 May 2016
Shares expected to begin trading on ASX (on a normal settlement basis)	5 May 2016

The above dates are subject to change and are indicative only. The Company (in consultation with the Lead Manager) reserves the right to vary the dates and times of the Offer, including to close the Offer early, extend the Offer or accept late Applications, without notifying any recipient of this Prospectus or any Applicants. Applicants are encouraged to submit their Applications as early as possible.

7.4 Purpose of the Offer and use of funds

The purpose of the Offer is to provide the Company with:

- Increased **funding capital** to grow the end-customer instalment payment related activities of its business and to support external sources of finance (when secured), in relation to this activity, that may be obtained in the future
- Increased **working capital** to accelerate the development of Afterpay's retail merchant client base and end-customer product offering including funding for product development, marketing, sales and general business overhead
- A liquid market for its Shares and an opportunity for others to invest in Shares
- Additional financial flexibility and access to capital markets to pursue growth opportunities

The proceeds of the Offer will:

- Increase **funding capital** to grow the end-customer instalment payment related activities of its business and to support external sources of finance (when secured), in relation to this activity, that may be obtained in the future
- Increase **working capital** to accelerate the development of Afterpay's retail merchant client base and end-customer product offering including funding for product development, marketing, sales and general business overhead
- Pay the costs of the offer.

Sources of Funds	$m	%
Gross Cash proceeds received from issue of New Shares	25.0	100%
Total sources	**25.0**	**100.00**

Uses of Funds	$m	%
Funding Capital	20.3	81.2%
Working Capital	3.0	12.0%
Payment of costs of the Offer	1.7	6.8%
Total uses	**25.0**	**100.00**

7.5 Pro forma historical consolidated balance sheet

Afterpay's pro forma balance sheet following Completion of the Offer, including details of the pro forma adjustments, is set out in Section 4.4.

7.6 Shareholding structure

Details of the ownership of Shares on Completion of the Offer are set out below:

Existing Shareholder	Shares at Prospectus Date	New Shares issued	Shareholding following Completion of the Offer	% post-IPO
Touchcorp associated entity	50,000,000	Nil	50,000,000	30.3%
Anthony Eisen	25,000,000	Nil	25,000,000	15.2%
Nicholas Molnar associated entity	25,000,000	Nil	25,000,000	15.2%
Michael Jefferies	250,000	Nil	250,000	0.2%
David Hancock	2,500,000	Nil	2,500,000	1.5%
Clifford Rosenberg	1,000,000	Nil	1,000,000	0.6%
Other Existing Shareholders (subject to escrow)	36,250,000	Nil	36,250,000	22.0%
New Shares to be issued under the Offer	Nil	25,000,000	25,000,000	15.2%
Total	**140,000,000**	**25,000,000**	**165,000,000**	**100.00**

Details of the Shares that will be subject to escrow arrangements are set out in Section 9.5.

7.7 Control Implications of the Offer

The Directors do not expect any Shareholder to control Afterpay on Completion of the Offer (as defined in Section 50AA of the Corporations Act).

7.8 Potential effect of the fundraising on the future of the Company

The Directors believe that, on Completion of the Offer, Afterpay will have sufficient funds available from the cash proceeds of the Offer to fulfil the purposes of the Offer and meet Afterpay's near-term business objectives.

7.9 Key terms and conditions of the Offer

The key terms and conditions of the Offer are summarised in the table below:

What is the type of security being offered?	New Shares, being fully paid ordinary Shares in the capital of Afterpay.
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 9.4.
What is the consideration payable for each security being offered?	The Offer Price is $1.00 per Share.

What is the Offer Period?	The key dates, including details of the Offer Period, are set out in the Key Offer Information Section. This timetable is indicative only and may change. The Company in consultation with the Joint Lead Managers, reserves the right to vary both of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or any Applicants). If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens. No Shares will be issued on the basis of this Prospectus later than 13 months after the date of lodgement of this Prospectus.
What are the cash proceeds to be raised?	Approximately $25.0 million will be raised from the Offer proceeds (before costs and expenses).
Is the Offer underwritten?	Yes. The Joint Lead Managers have fully underwritten the Offer pursuant to the Underwriting Agreement. Details are provided in Section 9.2.
What is the minimum and maximum Application size under the Broker Firm Offer?	The minimum Application under the Broker Firm Offer and General Offer is 2,000 Shares and in multiples of 1,000 Shares thereafter, as directed by the Applicant's Broker. The Joint Lead Managers, in consultation with Afterpay, reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for. There is no maximum number or value of Shares that may be applied for under the Broker Firm Offer and General Offer.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, Institutional Offer and the General Offer will be determined by the Joint Lead Managers and the Company having regard to the allocation policies outlined in Sections 7.10.4, 7.11.2 and 7.12.4. With respect to the Broker Firm Offer, it is a matter for the Broker how they allocate firm Shares among their eligible retail clients. For further information on the Broker Firm Offer, see Section 7.11. For further information on the Institutional Offer, see Section 7.12. For further information on the General Offer, see Section 7.13
Will the Shares be listed?	Afterpay will apply to the ASX for admission to the Official List and quotation of Shares on the ASX under the code AFY. Completion of the Offer is conditional on the ASX approving this Application. If approval is not given within three months after such Application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act

When are the Shares expected to commence trading?	Details are provided in Section 7.3.
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on 4 May 2016.
Are there any escrow arrangements	Yes. Details are provided in Section 9.5.
Is there brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Section 9.5 for details of various commissions, fees and expenses payable by Afterpay to the Joint Lead Managers.
Are there any tax consideration?	Yes. Please refer to Section 9.7 and note that it is recommended that all potential investors consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.
What should you do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Afterpay's Offer Information Line on 1300 378 930 (toll free within Australia) between 9.00am and 5.00pm Melbourne time, Monday to Friday. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you require assistance to complete the Application Form, require additional copies of this Prospectus, have any questions in relation to the Offer or you are uncertain as to whether obtaining Shares in Afterpay is a suitable investment for you, you should seek professional advice from your stockbroker, solicitor, accountant, taxation adviser financial adviser or other independent professional adviser before deciding whether to invest.

7.10 Broker Firm Offer

7.10.1 Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. If you have received a firm allocation of Shares from your Broker, you will be treated as a Broker Firm Offer Applicant in respect of that allocation. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer. The Broker Firm Offer is not open to persons in the United States.

7.10.2 How to apply

If you have received an allocation of Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions.

Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry. Applicants under the Broker Firm Offer should contact their Broker to request a copy of this Prospectus and Application Form. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are received before 5.00pm (Melbourne time) on the Closing Date or any earlier closing date as determined by your Broker.

Applications for Shares must be for a minimum of 2,000 Shares and thereafter in multiples of 1,000 Shares and payment for the Shares must be made in full at the issue price of $1.00 per Share.

There is no maximum number or value of Shares that may be applied for under the Offer. However, Afterpay and the Joint Lead Managers reserve the right to reject or scale back any Applications in the Offer. Afterpay may determine a person to be eligible to participate in the Offer, and may amend or waive the Offer Application procedures or requirements, in its discretion in compliance with applicable laws.

The Offer opens at 9am (Melbourne time) on 14 April 2016 and is expected to close at 5pm (Melbourne time) on 26 April 2016. Afterpay and the Joint Lead Managers may elect to close the Offer or extend the Offer, or accept late Applications either generally or in particular cases. The Offer may be closed at any earlier date and time, without further notice. Applicants are therefore encouraged to submit their Applications as early as possible.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your firm allocation. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The Company, the Joint Lead Managers and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

7.10.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided to you by that Broker.

7.10.4 Allocation policy under the Broker Firm Offer

Shares that have been allocated to Brokers for allocation to their Australian resident retail clients will be issued to the Applicants nominated by those Brokers. It will be a matter for each Broker as to how they allocate firm Shares among their retail clients, and they (and not Afterpay or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

7.10.5 Acceptance of Applications

An Application in the Broker Firm Offer is an offer by the Applicant to Afterpay to apply for the amount of Shares specified in the Application Form, at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement Prospectus) and the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to Successful Applicants.

The Joint Lead Managers, in agreement with Afterpay, reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by an Applicant in completing their Application.

7.10.6 Application Monies

Application Monies received under the Broker Firm Offer will be held in a special purpose bank account until Shares are issued or transferred to Successful Applicants. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Afterpay.

To participate in the Offer, the Application Form must be completed and received, together with the Application Monies, in accordance with the instructions on the Application Form.

7.11 Institutional Offer

7.11.1 Invitations to bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Joint Lead Managers separately advised Institutional Investors of the application procedures for the Institutional Offer.

7.11.2 Allocation policy under the Institutional Offer

The allocation of Shares among Applicants between the Institutional Offer and the Broker Firm Offer will be determined by the Joint Lead Managers in agreement with Afterpay. The Joint Lead Managers and Afterpay have absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Joint Lead Managers. The allocation policy was influenced, but not constrained, by the following factors:

- number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- Afterpay's desire for an informed and active trading market following Listing;
- Afterpay's desire to establish a wide spread of institutional Shareholders;
- overall level of demand under the Broker Firm Offer and Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long-term Shareholders; and
- any other factors that Afterpay and the Joint Lead Managers considered appropriate.

7.12 General Offer

7.12.1 Who may apply

The General Offer (which does not include the Broker Firm Offer) is open to Applicants resident in Australia. The Company reserves the right in its absolute discretion not to issue any Shares to Applicants under the General Offer. All Applicants under the General Offer must have an eligible residential address in Australia.

7.12.2 How to apply

In order to apply for Securities under the General Offer, please complete the Application Form that is included in or accompanies this Prospectus (or a printed copy of the Application Form attached to the electronic version of the Prospectus). Application Forms must be completed in accordance with the accompanying instructions. For printed Applications, once completed, please lodge your Application Form and Application Monies so that it is received at the address of the Company's Share Registry set out below by the Closing Date.

7.12.3 Payment methods

Application Monies in the case of the General Offer are to be provided by cheque(s) or bank draft(s). Cheque(s) or bank draft(s) must be:

- in Australian currency;
- drawn on an Australian branch of a financial institution;
- crossed 'not negotiable' and made payable to 'Afterpay Holdings Ltd'

7.12.4 Allocation policy under the General Offer

The Company reserves the right in its absolute discretion not to issue any Securities to Applicants under the General Offer and may reject any Application or allocate a lesser number of Securities than those applied for at its absolute discretion.

7.12.5 Acceptance of Applications

An Application in the General Offer is an offer by the Applicant to Afterpay to apply for the amount of Shares specified in the Application Form, at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement Prospectus) and the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to Successful Applicants.

The Joint Lead Managers, in agreement with Afterpay, reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the General Offer, or to waive or correct any errors made by an Applicant in completing their Application.

7.12.6 Application Monies

All Application Monies received by the Company will be held by the Company on trust in a separate account until the Securities are issued to successful Applicants.

7.13 Escrow arrangements

Refer to section 9.5 for a summary of the escrow arrangements.

7.14 Discretion regarding the Offer

With the consent of the Joint Lead Managers, Afterpay may withdraw the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

Afterpay and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than applied or bid for.

7.15 Restrictions on Distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States or elsewhere outside Australia, unless it has attached to it the selling restrictions applicable in the jurisdictions outside Australia, and may only be distributed to persons to whom the Institutional Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States.

Each Applicant under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.16 ASX Listing, Registers and holding statements, deferred settlement trading

7.16.1 Application to the ASX for listing of Afterpay and quotation of Shares

Afterpay will apply for admission to the Official List of the ASX and quotation of the Shares on the ASX within seven days of the Prospectus Date. Afterpay's ASX code will be AFY.

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit Afterpay to the Official List is not to be taken as an indication of the merits of Afterpay or the Shares offered for subscription.

If Afterpay does not make such an Application within seven days after the date of the Prospectus, or if permission is not granted for the official quotation of Shares on the ASX within three months after the Prospectus date (or any later date permitted by law), all Application Monies received by Afterpay will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

Afterpay will be required to comply with the ASX Listing Rules, subject to certain conditions (including any waivers obtained by Afterpay from time-to-time).

7.16.2 CHESS and issuer sponsored holdings

Afterpay will apply to participate in the ASX's Clearing House Electronic Sub-register System (CHESS) and will comply with ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are affected in an electronic form.

When the Shares become approved financial products (defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer-sponsored sub-register. For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer-sponsored sub-register.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements at the end of each month or if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring Broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. The Share Registry may charge a fee for these additional statements.

7.16.3 Deferred settlement trading and selling Shares on market

It is expected that trading of the Shares on the ASX (on a deferred basis) will commence on or about 4 May 2016.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If Shares are sold before receiving a holding statement, Successful Applicants do so at their own risk. The Company, the Share Registry, the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, if a Shareholder sells Shares before receiving a holding statement, even if the Shareholder obtained details of their holding through the Joint Lead Managers or their Broker.

Shares are expected to commence trading on the ASX on a normal settlement basis on 5 May 2016.

08 Independent Limited Assurance Report

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Building a better working world

Board of Directors
Afterpay Holdings Limited
(formerly known as Afterpay Holdings Pty Ltd)
Level 16
380 La Trobe Street
Melbourne VIC 3000

Dear Directors,

INDEPENDENT LIMITED ASSURANCE REPORT ON HISTORICAL FINANCIAL INFORMATION AND PRO FORMA HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have been engaged by Afterpay Holdings Pty Ltd ('Afterpay' or the 'Company') to report on the historical financial information and pro forma historical financial information for inclusion in the initial public offering prospectus ('Prospectus') to be dated on or about 24 March 2016, and to be issued by Afterpay Holdings Limited, in respect of the initial public offer of 25,000,000 fully paid ordinary shares in Afterpay Holdings Limited ('Offer').

Expressions and terms defined in the Prospectus have the same meaning in this report.

2. Scope

Historical Financial Information

You have requested Ernst & Young to review the following historical financial information of AfterPay:

- the historical consolidated income statements for the financial year ended 30 June 2015 and the six month period ended 31 December 2015 as set out in Table 1 of Section 4.3.1 of the Prospectus;
- the historical consolidated cashflows for the financial year ended 30 June 2015 and the six month period ended 31 December 2015 as set out in Table 4 in Section 4.5 of the Prospectus; and
- the historical consolidated balance sheet as at 31 December 2015 as set out in Table 3 of Section 4.4 of the Prospectus.

(Hereafter 'the Historical Financial Information')

The Historical Financial Information for Afterpay for the financial year ended 30 June 2015 has been derived from its unaudited financial statements for the year ended 30 June 2015 on which no audit opinion or limited assurance conclusion has been issued.

The Historical Financial Information for Afterpay for the six month period ended 31 December 2015 has been derived from its half-year report of the Company for the six month period ended 31 December 2015 which was reviewed by Ernst & Young and on which an unqualified limited assurance conclusion was issued.

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles prescribed in Australian Accounting Standards issued by the Australian Accounting Standards Board, which are consistent to International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

Pro Forma Historical Financial Information

You have requested Ernst & Young to review the following pro forma historical financial information of Afterpay:

- the pro forma historical consolidated balance sheet as at 31 December 2015 as set out in Table 3 of Section 4.4 of the Prospectus.

(Hereafter the 'Pro Forma Historical Financial Information').

The Pro Forma Historical Financial Information has been derived from the historical consolidated balance sheet of Afterpay as at 31 December 2015 and adjusted for the effects of the pro forma adjustment described in note 1 to Table 3 of Section 4.4 of the Prospectus.

The stated basis of preparation used in the preparation of the Pro Forma Historical Financial Information is, in a manner consistent with the recognition and measurement principles contained in Australian Accounting Standards, which are consistent to International Financial Reporting Standards, applied to the historical consolidated balance sheet and the events or transactions to which the pro forma adjustments relate, as described in note 1 to Table 3 of Section 4.4 of the Prospectus, as if those events or transactions had occurred as at 31 December 2015.

Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position.

The Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

3. Directors' Responsibility

The directors of Afterpay are responsible for the preparation and presentation of the Historical Financial Information and Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the historical consolidated balance sheet and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information and Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

5. Conclusions

Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information comprising:

- the historical consolidated income statements for the financial year ended 30 June 2015 and the six month period ended 31 December 2015 as set out in Table 1 of Section 4.3.1 of the Prospectus;
- the historical consolidated cashflows for the financial year ended 30 June 2015 and the six month period ended 31 December 2015 as set out in Table 4 in Section 4.5 of the Prospectus; and
- the historical consolidated balance sheet as at 31 December 2015 as set out in Table 3 of Section 4.4 of the Prospectus

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.2.1 of the Prospectus.

Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information comprising:

- the pro forma historical consolidated balance sheet as at 31 December 2015 as set out in Table 3 of Section 4.4 of the Prospectus.

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.2.1 of the Prospectus.

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6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 4.2.1 of the Prospectus, which describes the purpose of the Financial Information. As a result, the Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young does not have any interests in the outcome of this Offer other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully

Ernst & Young

Ernst & Young

09 Additional Information

09. Additional Information

9.1 Registration, share capital and company tax status

The Company was incorporated on 22 June 2015 as a private company limited by shares and was converted into a public company on 2 March 2016. On 7 March 2016 the Company undertook a 5 for 1 share split to increase the number of issued Shares to 140,000,000. The share split had the effect of adjusting the number and exercise price of options on issue at that time, in accordance with ASX Listing Rules methodology.

The operating company in the Group, Afterpay Pty Ltd, was incorporated on 2 May 2014.

The Company and Afterpay Pty Ltd are and will be subject to tax at the relevant corporate tax rate. The Company intends to form an income tax consolidated group with the Company as head entity and Afterpay Pty Ltd as a subsidiary member. The Company intends that formation of the income tax consolidated group will arise during the year ending 30 June 2016. The election to form an income tax consolidated group can be made up to the due date of lodgement of the income tax return for the Company for the year ending 30 June 2016.

On completion of the Offer, the Company will have 165,000,000 Shares on issue including 25,000,000 Shares to be issued under this Prospectus.

In addition, there are currently 14,475,000 Options on issue.

9.2 Material Agreements

The Directors consider that there are a number of contracts which are significant or material to Afterpay or are of such a nature that an investor may wish to have details of them when making a decision as to whether to apply for Shares.

The main provisions of these contracts are summarised below, or elsewhere in this Prospectus. These summaries are included for the information of potential investors in the Offer but do not purport to be complete and are qualified by the text of the contracts themselves.

9.2.1 Touchcorp Agreement

The business relationship between Afterpay Pty Ltd (**Afterpay PL**) and Touch Australia Pty Ltd (**Touch Australia**) is primarily set out in the Software Development and Licence Agreement (**SDLA**) pursuant to which Touch Australia provides Afterpay PL with access to its transactions and payments platform and has agreed to tailor, modify and further develop that system so that it can be used by Afterpay PL to make real time repayment capability assessments decisions in relation to end-customers who wish to make online purchases to receive goods immediately but defer payment for those goods. Afterpay PL recognises that it relies on Touch Australia to continue to develop Afterpay PL's software and systems, to provide hardware and support, and to assist with integration of new retail merchants onto the Afterpay System.

Touch Australia Deliverables to Afterpay

Pursuant to payment of the development fee in 2015, Touch Australia must provide to Afterpay PL certain deliverables, as outlined below:

- Routinely maintain, upgrade and update the Afterpay System so that it continues to meet the business requirements and the service level requirements
- Develop and integrate any modifications requested by the Steering Committee (as described below) from time to time
- Continue to undertake product development services as agreed between the parties from time to time
- Provide ongoing support, integrations and administration required to ensure the Afterpay System continues to operate in accordance with agreed requirements
- Provide database management and customer support services as agreed
- Continue to improve the Afterpay System and optimise the business rules of the Afterpay System
- Manage PCI-DSS compliance processes and frameworks for Afterpay

Term

The term of the SDLA continues indefinitely until terminated in accordance with the SDLA or by mutual agreement.

Fees

In consideration for the development of the Afterpay System, Afterpay PL has paid Touch Australia in 2015 a development fee comprising:

- A cash payment of $3 million (plus GST), which has been paid in full; and
- The issue of 50,000,000 fully paid ordinary shares in the Company (post 5:1 share split implemented by the Company in March 2016) with a deemed price of $1.00 per share on a pre-split basis (equivalent to $0.20 per share on a post-split basis)

In addition to the development fee described above, Afterpay PL has agreed to pay Touch Australia a transaction fee in consideration for Touch Australia processing transactions through the Afterpay System on behalf of Afterpay PL. The transaction fee is equal to:

- In relation to transactions processed by Touch Australia up to 31 December 2015, Touch Australia's direct costs in processing each transaction
- In relation to transactions processed by Touch Australia on and after 1 January 2016, Touch Australia's direct costs in processing each transaction plus an agreed fee which is consistent with the most relevant competitive rates which Touch Australia charges other organisations for processing similar transactions.

Steering Committee

The SDLA provides that a Steering Committee established by the parties will be responsible for giving directions to Touch Australia regarding the overall direction and control of the modification and development of the Afterpay System. The Steering Committee must meet at least four times in every financial year for the purpose of discussing and implementing strategies and decisions.

The Steering Committee is comprised of two members from each of Afterpay PL and Touch Australia. Each member has one vote on decisions made by the Steering Committee, with Afterpay PL able to appoint the Chairperson of the Steering Committee who will have a casting vote in the event of a deadlock.

Intellectual property

Upon payment of the development fee, all intellectual property created or brought into existence by Touch Australia in connection with the SDLA that is used to operate or forms part of the Afterpay System vests in Afterpay PL. Touch Australia has agreed to ensure that its personnel and sub-contractors assign to Afterpay PL any of their intellectual property similarly created or brought into existence in connection with the SDLA. Afterpay PL has the exclusive world-wide right to apply for registration of the intellectual property in the Afterpay System or any intellectual property that it owns which was created or brought into existence in connection with the SDLA.

In addition, Afterpay PL holds a perpetual licence to reproduce and modify Touch Australia's intellectual property rights that are embedded in the Afterpay System for the purpose of operating the Afterpay System.

To the extent that any of the Afterpay System intellectual property has vested in Afterpay PL and subject to Touch Australia not providing the Afterpay System intellectual property to a direct competitor of Afterpay PL, Afterpay PL has granted to Touch Australia a perpetual licence to reproduce and modify that intellectual property.

The Afterpay System was developed by Touchcorp through the modification and further development of pre-existing Touchcorp technology and systems. Nothing in the SDLA affects the ownership of either party's background intellectual property or any third party intellectual property. Pursuant to the terms of the SDLA, background intellectual property owned by Touch Australia includes activities related to processing transactions through the Afterpay System.

However, prior to developing the Afterpay System, on Afterpay's behalf, the Touchcorp transaction and payments system did not incorporate the following key features of the Afterpay System:

- End-to-end operating platform, comprising the Afterpay integrated purchase process, Afterpay's API and integration plugins, Afterpay's merchant administration portal, end-customer administration portal (including but not limited to the Afterpay customer service system through ZenDesk), Afterpay's own administration and reporting system (as it pertains to Afterpay's merchant and end-customer management capabilities and end-customer repayment collection activities) and the Afterpay website
- Functionality (software and systems) to schedule, administer and transact end-customer instalment payments as per Afterpay's product requirements
- Functionality (software and systems) to schedule, administer and transact with Afterpay's end-customers as per Afterpay's late payment collection activities
- Functionality (software and systems) to schedule, administer and transact with Afterpay's retail merchant clients as per Afterpay's standard retail merchant client contract
- Functionality (software and systems) relating to Afterpay's prospective 'in-store' lay-by replacement product
- Functionality (software and systems) relating to Afterpay's prospective extended instalment payment products
- Compilation of end-customer verification and end-customer repayment capability rules

Additionally, Afterpay does have certain overriding rights to consumer information relating to the Afterpay System. Specifically, Afterpay PL retains ownership of all of the data and information stored and processed by Touch Australia under the SDLA or which may otherwise be generated, compiled, arranged or developed under the SDLA, and includes data developed and used in and for the purpose of creating the Afterpay System and the rules that have been and will be further developed specifically for the Afterpay System to enable it to meet its business requirements as well as transaction information (information received, collected or transmitted in conducting or attempting to conduct a transaction and any aggregation or compilation of that information).

Escrow

Touch Australia agrees to enter into a software escrow agreement under which it will deposit with an escrow agent, and keep complete and up-to-date, a copy of the source code and object code of the Afterpay System. The escrowed software will be released by the escrow agent to Afterpay PL in the event that Afterpay PL terminates the SDLA due to a force majeure event, material breach by Touch Australia of its obligations to maintain and modify the Afterpay System, or various other termination events, or if Touch Australia otherwise ceases to maintain the Afterpay System in the reasonable opinion of Afterpay PL.

Step-in rights

The SDLA contains step-in rights requiring Touch Australia to operate the Afterpay System and process the transactions in a separate discrete segment of its operations so that Afterpay PL is able to assume responsibility of the Afterpay System and continue to process transactions through the Afterpay System in the event that:

- there is a serious and continued breach of the SDLA by Touch Australia;
- there is a continuing force majeure event and Touch Australia has been unable to implement its business continuity plan;
- there is a significant change of the composition of Touch Australia's board of directors or a change of more than half of the voting power of Touch Australia such that Afterpay PL reasonably forms the view that the spirit and intent of the SDLA will no longer be upheld; or
- Afterpay PL terminates the SDLA in accordance with its terms.

Termination Events

Afterpay PL may terminate the SDLA immediately by notice to Touch Australia if:

- Touch Australia commits a breach of the provisions of the SDLA regarding ongoing maintenance and modification of the Afterpay System which Touch Australia fails to remedy within 14 days after being required in writing to do so;
- Touch Australia commits a material breach of the SDLA which is incapable of being remedied or, if the breach is capable of being remedied, Touch Australia fails to remedy the breach within 14 days after being required in writing to do so;
- a force majeure event prevents Touch Australia, whether wholly or in part, from carrying out its obligations under the SDLA for a period of at least 90 days; or
- an insolvency or like event occurs in relation to Touch Australia.

Touch Australia does not have any similar express rights of termination under the SDLA. However, under general contract law Touch Australia will have termination rights in the event of a material breach of the SDLA by Afterpay in certain circumstances.

Warranties and representations

Touch Australia provides various warranties in relation to its deliverables under the SDLA and the Afterpay System including that the Afterpay System will operate fully and effectively, and that Touch Australia will process all transactions through the Afterpay System, in accordance with the relevant requirements, and further that the Afterpay System will be free from material design and programming errors.

Indemnity

Touch Australia agrees to indemnify Afterpay PL and its relevant authorised persons against any claim, loss, liability, cost and expense arising out of any third party claim that Afterpay PL's possession or use of Touch Australia's deliverables or services provided to Afterpay PL under the SDLA infringe any third party intellectual property or other rights.

9.2.2 Underwriting Agreement

The Company and the Joint Lead Managers have entered into an underwriting agreement dated 24 March 2016 (**Underwriting Agreement**) pursuant to which the Joint Lead Managers agree to underwrite subscriptions for the number of New Shares offered under the Offer for which valid applications are not received, at the Offer Price. Pursuant to the Underwriting Agreement, the Company has also appointed the Joint Lead Managers to act as exclusive managers of the Offer and to allocate the New Shares by agreement with the Company.

Fees, costs and expenses

Based on the Offer being completed successfully, the Company must pay to the Joint Lead Managers an offer management fee, underwriting fee and selling fee in the combined amount of 4.25% (exclusive of any applicable GST) of the gross Offer proceeds (being the Offer Price multiplied by the number of New Shares issued a under the Offer), as consideration for the Joint Lead Managers' management of the Offer and their underwriting obligations (respectively), which is payable to the Joint Lead Managers on the settlement date for the Offer.

The Company must also pay and reimburse the Joint Lead Managers in relation to all reasonable costs and expenses of and incidental to the Offer. All such amounts are payable as soon as reasonably practicable, and in any case within 14 days, after a request for payment or reimbursement is made by the Joint Lead Managers or on termination of the Underwriting Agreement.

Conditions

The Joint Lead Managers' obligations under the Underwriting Agreement are conditional on certain conditions precedent being satisfied or waived. The conditions precedent are usual for an agreement of this nature however also specifically include that the escrow agreements between the Company and each Escrowed Shareholder for escrow of all of the Shares held by each of those parties are delivered to the Joint Lead Managers in a form and substance acceptable to the Joint Lead Managers.

Representations, warranties and undertakings

The Underwriting Agreement contains customary representations, warranties and undertakings provided by the Company to the Joint Lead Managers. The warranties, representations and undertakings relate to matters such as the conduct of the parties, the conduct and outcome of the due diligence process, information provided to the Joint Lead Managers, financial information, material contracts, intellectual property, software and systems, licences, future matters, insolvency, compliance with ASX Listing Rules and laws, information contained in this Prospectus and the conduct of the Offer.

The undertakings provided by the Company include that the Company will not, during the period following the date of the Underwriting Agreement until 180 days after completion of the Offer, issue or agree to issue any Shares or other securities (other than pursuant to the Offer, the Employee Incentive Plan, the Employee Option Plan or as otherwise disclosed in this Prospectus), and will not, before completion of the Offer, materially vary any material contract or its constitution or materially alter its capital structure or dispose the whole or a substantial part of its business or property (except with the prior consent of the Joint Lead Managers).

Indemnity

Subject to certain exceptions, the Company indemnifies the Joint Lead Managers and persons associated with the Joint Lead Managers against certain losses and liabilities which relate to or arise from the Underwriting Agreement, this Prospectus (or any related documents or materials) or the Offer.

Termination Events not limited to materiality

If any of the following events occurs at any time before completion of the Offer or other time as specified below the Joint Lead Managers may terminate, without cost or liability, by notice to the Company and the other Joint Lead Manager, their obligations under the Underwriting Agreement:

(a) (**disclosures**) a statement contained in this Prospectus (or any supplementary prospectus) or other publicly available information is or becomes misleading or deceptive in the context of this Prospectus (or any supplementary prospectus), or a matter required by the Corporations Act to be included is omitted from this Prospectus (or any supplementary prospectus), and in either case is materially adverse from the point of view of an investor;

(b) (**new circumstances**) there occurs a new circumstance that arises after this Prospectus is lodged that would have been required to be included in this Prospectus if it had arisen before this Prospectus was lodged;

(c) (**supplementary prospectus**) the Company issues or is required to issue a supplementary prospectus to comply with section 719 of the Corporations Act;

(d) (**form of supplementary prospectus**) the Company lodges a supplementary prospectus with ASIC in a form that has not been approved by the Joint Lead Managers;

(e) (**market fall**) the S&P/ASX All Ordinaries Index falls to a level that is 90% or less of the level as at the close of trading on the date of the Underwriting Agreement and remains at or below that 90% level for at least 3 business days or remains at or below that 90% level on the business day immediately prior to the issue of New Shares;

(f) (**listing and quotation**) approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:

   (i) the Company's admission to the official list of ASX on or before the listing approval date as set out in the Underwriting Agreement; or

(ii) the quotation of all of the New Shares on ASX or for the New Shares to be traded through CHESS on or before the date on or before the quotation date as set out in the Underwriting Agreement,

or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;

(g) (**notifications**) any of the following notifications are made:

(i) ASIC issues an order (including an interim order) under section 739 of the Corporations Act;

(ii) ASIC holds a hearing under section 739(2) of the Corporations Act;

(iii) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or this Prospectus (or any supplementary prospectus) or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 1989* (Cth) in relation to the Offer or this Prospectus (or any supplementary prospectus);

(iv) any person (other than the Joint Lead Managers) who has previously consented to the inclusion of its name in this Prospectus (or any supplementary prospectus) withdraws that consent; or

(v) any person gives a notice under section 730 of the Corporations Act;

(h) (**certificate**) the Company does not provide a closing certificate as and when required by the Underwriting Agreement or a statement in any closing certificate is untrue or incorrect in a material respect;

(i) (**withdrawal**) the Company withdraws this Prospectus (or any supplementary prospectus) or the Offer; or

(j) (**insolvency events**) any member of the Group becomes insolvent.

Termination Events limited to materiality

If any of the following events occur at any time before completion of the Offer and a Joint Lead Manager has reasonable and bona fide grounds to believe and does believe that the event: (i) has or is likely to have a materially adverse effect on the success or settlement of the Offer, the ability of the Joint Lead Managers to make the Offer or the performance of secondary market trading of the New Shares within the first two weeks of trading following the quotation of those New Shares; (ii) would give or would be likely to give rise to a material liability for the Joint Lead Managers; or (iii) would give or would be likely to give rise to a contravention by the Joint Lead Managers or the Joint Lead Managers being involved in a contravention of any law, regulation, treaty or administration action, then each Joint Lead Managers may terminate without cost or liability by notice to the Company and the other Joint Lead Manager:

(a) (**forecasts**) there:

(i) are not reasonable grounds, in the reasonable opinion of the Joint Lead Managers, for any statement by the Company in this Prospectus (or any supplementary prospectus) which relates to future matters (including financial forecasts);

(ii) ceases to be reasonable grounds, in the reasonable opinion of the Joint Lead Managers, for any statement by the Company in this Prospectus (or any supplementary prospectus) which relates to future matters (including financial forecasts) and the Company does not issue a supplementary prospectus;

(b) (**disclosures in due diligence report**) the due diligence report prepared by the Company's due diligence committee or verification material or any other information supplied by or on behalf of the Company to the Joint Lead Managers in relation to the Group or the Offer is or becomes false or misleading or deceptive, including by way of omission;

(c) (**adverse change**) any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company, and the Group, including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company, and the Group from those respectively disclosed in this Prospectus (or any supplementary prospectus) or the publicly available information;

(d) (**hostilities**) hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United Kingdom or the United States or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;

(e) (**change of law**) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority, including ASIC adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement), any of which does or is likely to prohibit, restrict or regulate the Offer, capital issues, the level or likely level of valid applications under the Offer or stock markets;

(f) (**change in management**) a change in senior management or the board of directors of the Company occurs without the prior written consent of the Joint Lead Managers;

(g) (**prosecution**) any of the following occur:

(i) a director of the Company is charged with an indictable offence;

(ii) any government agency commences any public action against the Company or any of its directors in their capacity as a director of the Company, or announces that it intends to take such action; or

(iii) any director is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;

(h) (**compliance with agreements and regulatory requirements**) a contravention by the Company or any entity in the Group of the Corporations Act, the Company's constitution, or any of the ASX Listing Rules, or the Company commits a fraudulent act;

(i) (**default**) a default by the Company in the performance of any of its obligations under the Underwriting Agreement occurs;

(j) (**representations and warranties**) a representation or warranty contained in the Underwriting Agreement on the part of the Company is breached or becomes not true or correct;

(k) (**Timetable**) the Offer is not conducted in accordance with the timetable for the Offer agreed with the Joint Lead Managers or any event specified in the Offer timetable is delayed for more than five business days, in either case without the prior written consent of the Joint Lead Managers;

(l) (**constitution**) the Company varies any term of its constitution without the prior written consent of the Joint Lead Managers to the terms of the variation;

(m) (**change to Company**) the Company:

(i) alters the issued capital of the Company;

(ii) disposes or attempts to dispose of a substantial part of the business or property of the Company,

without the prior written consent of the Joint Lead Managers;

(n) (**charges**) the Company or any of its related bodies corporate charges, or agrees to charge, the whole or a substantial part of the business or property of the Company other than:

(i) a charge over any fees or commissions to which the Company is or will be entitled; or

(ii) as disclosed in this Prospectus (or any supplementary prospectus); or

(iii) as agreed with the Joint Lead Managers (acting reasonably); or

(o) (**disruption in financial markets**) any of the following occurs:

(i) a general moratorium on commercial banking activities in Australia, the United Kingdom or the United States is declared by the relevant central banking authority in those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries;

(ii) any adverse effect on the financial markets in Australia, New Zealand, the United Kingdom or the United States, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries; or

(iii) trading in all securities quoted or listed on the ASX is suspended or limited in a material respect for one day on which that exchange is open for trading.

9.3 Financing arrangements

The Group operates transactional bank accounts in Australia. The bank accounts do not include any debt facilities and the Company is debt free. These are current accounts which operate with positive balances.

9.4 Summary of rights and liabilities attaching to shares and other material provisions of the Company's Constitution

General

The rights and liabilities attaching to ownership of the Shares are:

- Detailed in the Constitution of the Company which is available online at afterpay.com.au; and
- In certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not intended to be exhaustive and is qualified by the fuller terms of the Constitution. This summary does not constitute a definitive statement of the rights and liabilities of Shareholders. This summary assumes Afterpay is admitted to the official list of ASX.

Voting

At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each fully paid Share held. On a poll, partly paid Shares (if any) confer a fraction of a vote pro-rata to the amount paid up on the Share.

Dividends

Subject to any special terms and conditions of issue, the amount which the Directors from time to time determine to distribute by way of dividend are divisible among the members in proportion to the amounts paid up on the Shares held by them.

Issue of shares

Subject to the Constitution, the Listing Rules and the Corporations Act, the Directors have the right to issue shares or grant options over unissued shares to any person and they may do so at such times as they think fit and on the conditions and the issue price they think fit. Such shares may have preferred, deferred or other special rights or special restrictions about dividends, voting, return of capital or otherwise, as the Directors think fit.

Variation of class rights

Subject to the Corporations Act and the Listing Rules, the rights attached to any class of shares may, unless their terms of issue state otherwise, be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

Transfer of shares

Subject to the Constitution, the Corporations Act, the Listing Rules and to the rights or restrictions attached to any shares or class of shares, holders of Shares may transfer them by a proper transfer effected in accordance with the ASX Settlement Operating Rules or an instrument in writing in any usual form or in any other form that the Directors approve.

The Directors may decline to register a transfer of Shares for reasons including where the transfer is not in registrable form or where the refusal to register the transfer is permitted under the Listing Rules or the ASX Settlement Operating Rules. If the Directors decline to register a transfer, the Company must give the party lodging the transfer written notice of the refusal and the reason for refusal.

Small holdings

The Directors may sell Shares on behalf of a Shareholder if that Shareholder holds less than a marketable parcel of Shares, provided that the procedures set out in the Constitution are followed including offering an opt-out ability to all affected Shareholders. A non-marketable parcel of Shares is defined in the Listing Rules and is, generally, a holding of shares with a market value of less than $500.

General meetings and notices

Subject to the Constitution and to the rights or restrictions attached to any shares or class of shares, each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of the Company and receive all financial statements, notices and other documents required to be sent to members under the Constitution or the Corporations Act.

Winding up

Subject to any special or preferential rights attaching to any class or classes of shares, the Constitution, the Corporations Act and the Listing Rules, members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the shares held by them, less any amounts which remain unpaid on these shares at the time of distribution.

Directors – appointment and removal

The minimum number of Directors is three and the maximum is to be fixed by the Directors but may not be more than 10 unless the Company passes a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that any Director who has held office for three or more years or three or more annual general meetings (excluding any managing director) retires at the annual general meeting of the Company, and may stand for re-election. The Directors may also appoint a Director to fill a casual vacancy on the Board or as an addition to the Board, who will then hold office until the next annual general meeting of the Company and may stand for re-election.

Directors – voting

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. Subject to the ASX Listing Rules, in the case of a tied vote, the Chair has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

Directors' remuneration

The Directors, other than the Executive Directors, are entitled to be paid by such Directors' fees for their services as the Directors decide, provided that the total fees do not exceed the maximum aggregate sum of $700,000 or such other amount as may be approved from time to time by Shareholders in general meeting. The Constitution also makes provision for the Company to pay all expenses of Directors in attending meetings and carrying out their duties and for the payment of additional fees for extra services or special exertions. Any change to that maximum aggregate sum needs to be approved by Shareholders.

Alteration of share capital

Subject to the Listing Rules, the Constitution and the Corporations Act, the Company may alter its share capital.

Variation of the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of members present and voting at a general meeting of the Company.

Share buy-backs

The Company may buy back shares in accordance with the provisions of the Corporations Act.

9.5 Escrow arrangements

The escrowed shareholders have entered into escrow arrangements under which they will be restricted from dealing with the escrowed shares and Options they hold on Completion of the Offer until the expiration of the relevant escrow period, as set out in the table below.

An "escrow" is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to any exceptions in the escrow arrangement. However, the restriction does not extend to any voting rights attached to the Shares.

There are limited circumstances in which the escrow may be released early, namely:

- if a takeover bid is made for all of the issued Shares of the Company and the bid is successful; or
- if a scheme of arrangement is proposed by the Company under the Corporations Act.

The number of Shares in respect of which the Escrowed Shareholders are to enter into escrow arrangements are set out in the table below.

Name of escrowed party	Shares held in escrow (number)	Escrow as % of party's holding	Escrow period
Nicholas Molnar Pty Ltd (as trustee for Nicholas David Family Trust)	25,000,000	100.0%	24 months from listing on ASX
Anthony Eisen	25,000,000	100.0%	24 months from listing on ASX
Touchcorp Limited	50,000,000	100.0%	24 months from listing on ASX
Michael and Julie Jefferies (as trustee for The Jefferies Super Fund)	200,000	80.0%	24 months from listing on ASX
Michael and Julie Jefferies (as trustee for The Jefferies Super Fund)	50,000	20.0%	Until 1 March 2017
Fiona Hancock	2,000,000	80.0%	24 months from listing on ASX
Fiona Hancock	500,000	20.0%	Until 1 March 2017
Clifro Pty Ltd (as trustee for Cliffro Trust)	800,000	80.0%	24 months from listing on ASX
Clifro Pty Ltd (as trustee for Cliffro Trust)	200,000	20.0%	Until 1 March 2017
Other pre-IPO Investors (in aggregate)	36,250,000	100%	Until 1 March 2017
Total	**140,000,000**	**100%**	

In addition, 100% of the options held by the Directors (refer to Section 6.5.4) will be subject to escrow restrictions for 24 months from listing on the ASX.

9.6 Litigation and claims

The Directors are not aware of any civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature instituted, pending or threatened in which the Company is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Company.

9.7 Summary of Australian tax issues for Australian tax resident investors

9.7.1 Australian tax considerations

The comments in this Section provide a general outline of Australian tax issues for Australian tax resident Shareholders who acquire ordinary shares under this Prospectus and that hold Shares in the Company on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks and Shareholders that hold their Shares on revenue account or carry on a business of trading in shares, or Shareholders who are exempt from Australian tax. This summary also does not cover the consequences for Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997 (Cth).

The summary in this Section is general in nature and is not exhaustive of all income tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax consequences, including capital gains tax, stamp duty and Australian goods and services tax consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this Section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia.

Tax laws are complex and subject to ongoing change. The tax consequences discussed in this section does not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant tax authorities. If there is a change, including a change having retrospective effect, the income tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to Australian taxation issues and is only one of the matters which needs to be considered by Shareholders before making a decision about their investments. Shareholders should consider taking advice from a licenced advisor, before making a decision about their investment to acquire shares under this Prospectus.

9.7.2 Dividends paid on shares

9.7.2.1 Australian tax resident individuals and complying superannuation entities

Where dividends on a Share are paid by the Company, those dividends should constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his or her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a 'tax offset' equal to the franking credits attached to the dividend, subject to being a 'qualified person' (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by the Company is unfranked, the Shareholder should generally be taxed at his or her prevailing marginal rate on the dividend received, with no tax offset.

9.7.2.2 Australian tax resident corporate shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset should then be allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

9.7.2.3 Australian tax resident trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of 'complying superannuation entities') or partnerships should include the dividend and franking credits in determining the net income of the trust or partnership. A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

9.7.2.4 Australian tax resident shares held 'at risk'

To be eligible for the benefit of franking credits and tax offset, a Shareholder must satisfy both the 'holding period' and 'related payment' rules. This requires that a Shareholder hold the Shares in the Company 'at risk' for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (e.g. through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares 'at risk'. In addition, a Shareholder must not be obliged to make a 'related payment' in respect of any dividend, unless they hold the Shares 'at risk' for the required holding period around the dividend dates.

Where these rules are not satisfied, the Shareholder will not include an amount for the franking credits in their assessable income and should not be entitled to a tax offset.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

Shareholders should also consider the impact of the integrity measures relating to the denial of franking tax offsets to certain 'distribution washing' arrangements. These integrity measures apply to distributions, including dividends, paid on or after 1 July 2013. Shareholders should have regard to these 'distribution washing' measures together with the broader integrity provisions that apply to the claiming of tax offsets, having regard to their own facts and circumstances.

9.7.3 Australian capital gains tax implications for Australian tax resident Shareholders on a disposal of Shares

The disposal of a Share by a Shareholder will be a CGT event. A capital gain should arise where the 'capital proceeds' on disposal exceed the 'cost base' of the share (broadly, the amount paid to acquire the share plus any transaction costs incurred in relation to the acquisition or disposal of the shares). In the case of an 'arm's length' on-market sale, the capital proceeds should generally be the cash proceeds received from the sale of the shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for at least 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as Trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for at least 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss should be realised where the reduced cost base of the share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

9.7.4 Tax File Numbers

Shareholders are not required to quote their Tax File Number, or, where relevant, Australian Business Number to the Company. However, if a valid TFN, a valid ABN or exemption details are not provided, Australian tax may be required to be deducted by the Company from distributions and/or unfranked dividends at the maximum marginal tax rate plus any relevant levy (for example, the Medicare levy). Australian tax should not be required to be deducted by the Company in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

9.7.5 Stamp Duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in the Company. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares while the Company remains listed.

9.7.6 Australian Goods and Services Tax

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in the Company, regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by the Company.

9.8 Foreign selling restrictions

This document does not constitute an offer of securities in any jurisdiction in which it would be unlawful. Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the **FMC Act**). The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency; or
- subscribes, or has subscribed, for securities that have a minimum amount payable of at least NZ$750,000.

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

General foreign selling restrictions

The offer of Shares under this Prospectus does not constitute a public offer in any jurisdiction outside Australia. This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to permit otherwise a public offering of the Shares in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

9.9 Costs of the Offer

The total expenses of the Offer (excluding GST) are estimated to be approximately $1.7m and are expected to be applied towards the items set out below.

Item of expenditure	Cost
Underwriting, selling and management fees	$1.1m
Legal fees	$0.2m
Tax and accounting fees	$0.25m
Printing and distribution	$0.05m
Other costs	$0.1m
Total	**$1.7m**

9.10 Consents to be named and disclaimers of responsibility

Each of the parties listed in this Section (each a **Consenting Party**), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and statement or report included in this Prospectus with its consent as specified below.

Each of the parties listed below has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of the statements in this Prospectus that are specified below in the form and context in which the statements appear:

- Wilson HTM Corporate Finance Ltd (**Wilson HTM**) has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Joint Lead Manager and Underwriter in the form and context in which it is named. Wilson HTM has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in the Prospectus;
- Bell Potter Securities Limited (**Bell Potter**) has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Joint Lead Manager and Underwriter in the form and context in which it is named. Bell Potter has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in the Prospectus;

- Ernst & Young has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Investigating Accountant in the form and context in which it is named and to the inclusion in this Prospectus of its Independent Limited Assurance Report in the form and context in which it is included. Ernst & Young has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in the Prospectus;
- Ernst & Young has given, and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor, in respect of H1 FY2016, provider of financial and tax due diligence services to the Company, in the form and context in which it is named. Ernst & Young has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in the Prospectus;
- Baker & McKenzie has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian legal adviser to the Company in relation to the Offer in the form and context in which it is named. Baker & McKenzie has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in the Prospectus;
- Computershare has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named. Computershare has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to the Company;
- Touchcorp has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. Touchcorp has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in the Prospectus;
- Princess Polly Online Pty Ltd (ABN 43 169 210 520) has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. Princess Polly consents to the inclusion of statements made by or based on statements made by it in this Prospectus in the form and context in which those statements appear. Princess Polly has not authorised or caused the issue of this Prospectus; and
- Cue & Co Pty Ltd (ABN 57 000 725 306) has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. Cue & Co Pty Ltd consents to the inclusion of statements made by or based on statements made by it in this Prospectus in the form and context in which those statements appear. Cue & Co Pty Ltd has not authorised or caused the issue of this Prospectus.

References are made in this Prospectus to entities that have certain dealings with Afterpay, including counterparties to contractual arrangements referred to in this Prospectus. These parties have been referred to for information purposes only. Those entities did not authorise or cause the issue of this Prospectus and have had no involvement in the preparation of any part of this Prospectus.

9.11 References to publications

References are made in this Prospectus to material that is attributed to various entities including Australian Bureau of Statistics, Neilsen Company, NAB, IBISWorld, and Australian Payments Clearing Association. These references are based on statements already published in public official documents or a book, journal or comparable publication. Those organisations did not prepare those materials specifically for this Prospectus and have had no involvement in the preparation of any part of this Prospectus.

9.12 Governing law

This Prospectus and the contracts that arise from the acceptance of the applications pursuant to the Offer are governed by the laws applicable in Victoria and each applicant submits to the exclusive jurisdiction of the courts of Victoria.

9.13 Authorisation of this Prospectus

Each Director of the Company has authorised the issue of this Prospectus and has consented to the lodgement of this Prospectus with ASIC and no Director has withdrawn this consent.

Appendix A Summary of Significant Accounting Policies

Appendix A. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Financial Information are set out below. The following policies have been consistently applied to all the periods presented, unless otherwise stated:

Basis of consolidation

The consolidated financial information comprises the financial information of the Group and its subsidiary as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Rendering of services

The Group facilitates the sales of products and services by merchants to end-customers by allowing end-customers to buy now and pay later without having to take out a traditional loan or paying any interest and fees. Afterpay pays merchants up front and assumes all non-payment risk. For this, the merchant pays Afterpay a fee with revenue recognised for the service upon end-customers acceptance through the Afterpay System.

(ii) Late Fee charges

Late fee charges are currently used by Afterpay as an incentive mechanism in order to encourage consumers to pay their outstanding balances as and when they fall due. Revenue is recognised upon charge to consumer at certain time points where late fees become applicable and are expected to be recovered. These time frames may vary over time.

(iii) Interest revenue

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset.

(i) Group as a leasee

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(ii) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity 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. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

End-Customer Receivables

End-customer receivables which generally have 14-56 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less an allowance for impairment.

Collectability of end-customer receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. The bad and doubtful debt provision for end-customer receivables is calculated on the expected loss of all end-customer receivables based on historical loss experience. Historical loss experience is adjusted based on current observable data. The methodology and assumptions used for estimating future cash flows are reviewed regularly, and updated for actual payment history.

Income tax

Current income tax assets and liabilities in respect of the taxable profit (tax loss) for the year is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, in which case deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Afterpay Holdings Limited and its wholly-owned Australian consolidated entity are intending to form an income tax consolidation group.

The head entity, Afterpay Holdings Limited and the wholly-owned entities in the tax consolidated group, should account for their own current and deferred tax amounts. The Group intends to apply the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Afterpay Holdings Limited should also recognise the current tax liabilities (or assets) and subject to satisfying the recoverability tests, the deferred tax assets arising from unused tax losses and unused tax credits assumed from the wholly-owned entities in the tax consolidated group.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement should be recognised as a contribution to (or distribution from) the wholly-owned tax consolidated entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Repairs and maintenance are recognised in the profit and loss as incurred.

Depreciation is calculated on the straight-line basis over the estimated useful life of the specific assets as follows:

- Plant and equipment – 3 to 5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The assets or cash-generating unit is written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the profit or loss in the cost of sales line item.

Derecognition

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

	CORE TECHNOLOGY
Useful lives	Finite
Amortisation method used	5 years – Straight-line
Internally generated/Acquired	Acquired and internally generated
Impairment testing	Amortisation method reviewed at every reporting period. Reviewed annually for indicators of impairment.

Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Trade and other payables

Trade payables and other payables are carried at amortised cost. Due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(i) Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Share-based transactions

Equity settled transactions

The Group measures the cost of equity settled transactions with employees and other parties based on the fair value of the equity provided at grant date. Where the transaction is with a non-employee, the cost is based on the fair value of the asset or service received. That cost is recognised, together with a corresponding increase in other capital reserves or share capital in equity, over the period in which the performance and/or service conditions are fulfilled and/or the asset or service is delivered/received.

The Group provides benefits to employees (including key management personnel) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Employee Share Option Plan (ESOP) provides benefits to executive directors and senior executives, and other staff as agreed by the Board of Directors.

A share-based payments expense is recognised in the income statement over the vesting period based on the fair value of the options. Settlement of share options upon vesting are recognised as contributed equity. The vesting of shares under the ESOP will depend on the satisfaction of certain key performance indicators by the executive. If the executive leaves within the vesting period, the share options allocated are returned to Afterpay.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined an independent expert.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the Group receives grants that relate to non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Contributed equity

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

Significant accounting judgements, estimates and assumptions

Management has identified the following accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimation of useful lives of assets

The estimation of the useful lives of assets have been based on historical experience as well as manufacturers' warranties (plant and equipment) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

Impairment of intangible assets

Intangible assets with finite lives are reviewed annually for impairment where an impairment trigger exists, the carrying value of the intangible asset is assessed against its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Management estimates and assumptions are used in the above calculations.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Impairment of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

Glossary

Glossary

TERM	MEANING
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
Afterpay or the Company	Afterpay Holdings Limited (ACN 606 589 520)
Afterpay Operating Platform	Afterpay's end-to-end, largely automated, operating platform, as described further in Sections 1.2 and 3.4.2
Afterpay Pty Ltd or Afterpay PL	Afterpay Pty Ltd (ACN 169 342 947)
Afterpay System	The Company's technology platform comprising the Transaction Integrity Engine and the Afterpay Operating Platform
Applicant	A person who submits an Application for Shares under this Prospectus
Application	Application made to subscribe for New Shares under the Offer
Application Form	The relevant form attached to or accompanying this Prospectus pursuant to which Applicants apply for Shares
Application Monies	The amount accompanying an Application Form submitted by an Applicant, calculated as the Offer Price multiplied by the number of Shares applied for
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange, as operated by ASX Limited (ABN 98 008 624 691)
ASX Listing Rules	The official listing rules of ASX
ASX Recommendations	The Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532)
ASX Settlement Operating Rules	The operating rules of ASX Settlement Pty Ltd
ATO	Australian Taxation Office
AUD or $	Australian dollars
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group interpretations
Australian Accounting Standards Board	The AASB is an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*
Awards	Has the meaning given in Section 6.7.1
BAS	Business Activity Statement
Bell Potter	Bell Potter Securities Limited (ABN 25 006 390 772)
Board	The Board of Directors of the Company

TERM	MEANING
Broker	Any ASX participating organisation selected by the Joint Lead Managers to act as a Broker to the Offer
Broker Firm Applicant	A person who applies to subscribe for Shares under the Broker Firm Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian resident clients of Brokers who have received a firm allocation from their Broker
CGT	Capital gains tax
CHESS	Clearing House Electronic Sub-register System operated in accordance with the Corporations Act
Completion of the Offer	Completion in respect of the allotment of Shares in accordance with the Underwriting Agreement
Company of Afterpay	Afterpay Holdings Limited (ACN 606 589 520)
Corporations Act	*Corporations Act 2001* (Cth)
Director	Each of the Directors of the Company from time to time
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Employee Incentive Plan	The Company's Employee Incentive Plan, adopted by the Company as described in Section 6.7.1
Employee Option Plan	The Afterpay Employee Option Plan adopted by the Company on 29 October 2015, as described in Section 6.7.2
end-customers	The end-customers who use the Afterpay service to make a purchase from a retail merchant
Escrow Period	In respect of the Escrowed Shareholders, the period ending on the dates set out in Section 9.5
Escrowed Shareholders	Each of the Existing Shareholders that have entered into a restriction agreement or voluntary escrow deed with the Company in relation to their Shares (excluding any New Shares acquired under the Offer)
Existing Shareholders	Persons owning Shares in the Company prior to the Offer
Existing Shares	Shares in the Company that were on issue prior to this Offer
Exposure Period	The period specified in Section 727(3) of the Corporations Act, being a minimum of seven days from the Prospectus Date, during which an Application must not be accepted. ASIC may extend this period to no more than 14 days after the Prospectus Date
Financial Information	Has the meaning given in Section 4.1
FY2015	Financial year ended 30 June 2015
General Offer	The Offer of Shares under this Prospectus to investors who have a registered address in Australia
Group	Means the Company and its subsidiary, Afterpay Pty Ltd

Glossary

TERM	MEANING
GST	Goods and services or similar tax imposed in Australia
HIN	Holder Identification Number
Historical Financial Information	Has the meaning given in Section 4.1
H1 FY2016	Six month period ended 31 December 2015
IFRS	International Financial Reporting Standards
Institutional Investor	An investor: • in Australia who is either a 'professional investor' or 'sophisticated investor' under sections 708(11) and 708(8) of the Corporations Act 2001 (Cth); and • in certain other jurisdictions to whom offers or invitations of Shares can lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency (except one with which Afterpay is willing in its discretion to comply).
Institutional Offer	The invitation to bid for Shares made to Institutional Investors under this Prospectus
Investigating Accountant	Ernst & Young
Independent Limited Assurance Report	The Independent Limited Assurance Report set out in Section 8
IPO	Initial Public Offering
Joint Lead Managers or Underwriters	Bell Potter and Wilson HTM
Listing Date	The date on which the Company is admitted to the official list of ASX
Merchant Fees	Transaction fees paid to the Company by its retail merchant clients
New Shares	Shares issued under this Offer
New Shareholders	Persons acquiring Shares under the Offer excluding any Existing Shareholders who acquire Shares under the Offer
NPAT	Net profit after tax
Offer	The Offer under this Prospectus of New Shares to be issued by the Company
Offer Price	$1.00 per New Share
Officer of officer	Has the meaning given in section 9 of the Corporations Act
Official List	The official list of ASX
Options	Options to subscribe for Shares in the Company issued by the Company to Optionholders
Optionholder	The holder of an Option
PIN	Personal identification number

TERM	MEANING
POS	Point of sale
Pro Forma Historical Financial Information	Has the meaning given in Section 4.1
Prospectus	This document (including the electronic form of this Replacement Prospectus) and any supplementary or replacement Prospectus in relation to this document
Prospectus Date	The date the original Prospectus was lodged with ASIC, 24 March 2016
retail merchants or retail merchant clients	The retail merchant clients of the Company
R&D	Research and development
Settlement	Settlement in respect of the Shares which are the subject of the Offer, occurring as described in the Underwriting Agreement
Shares	Fully paid ordinary shares in the Company.
Shareholder	The registered holder of a Share
Share Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277)
Software Development and Licence Agreement or SDLA or Touchcorp Agreement	The Software Development and Licence Agreement dated 12 February 2015 between Afterpay Pty Ltd and Touch Australia Pty Ltd (as amended)
SRN	Security Reference Number
Subsidiary	Has the meaning given in section 9 of the Corporations Act
TFN	Tax file number
Touch Australia	Touch Australia Pty Ltd (ACN 166 091 587)
Touchcorp	Touchcorp Limited (ARBN 603 731 184), or if the context requires, the corporate group comprising Touchcorp Limited and each of its subsidiaries and, where relevant, means one or more of those subsidiaries, as the context requires
Transaction Integrity Engine	The Company's transaction integrity engine which conducts end-customers fraud and repayment capability assessments in real-time, as more completely described in Sections and 1.2 and 3.4.2
Underwriting Agreement	The underwriting agreement dated 24 March 2016 between the Company, and the Joint Lead Managers in connection with the Offer, as described in Section 9.2.2
Wilson HTM	Wilson HTM Corporate Finance Ltd (ACN 057 547 323)

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Corporate Directory

Issuer's Registered Office

Afterpay Holdings Limited

Level 16, 380 La Trobe Street
Melbourne Vic 3000
Australia

Joint Lead Manager and Underwriter

Bell Potter Securities Limited

Level 29, 101 Collins Street
Melbourne Vic 3000
Australia

Joint Lead Manager and Underwriter

Wilson HTM Corporate Finance Ltd

Level 16, 357 Collins Street
Melbourne Vic 3000
Australia

Share Registry

Computershare Investor Services Pty Limited

452 Johnston Street
Abbotsford VIC 3067
Australia

ASX Code: AFY

Australian Legal Adviser

Baker & McKenzie

Level 19, CBW
181 William Street
Melbourne Vic 3000

Investigating Accountant

Ernst & Young

8 Exhibition Street
Melbourne VIC 3000
Australia

Independent Auditor

Ernst & Young

8 Exhibition Street
Melbourne Vic 3000
Australia

Afterpay Information Line

Within Australia (toll-free) 1300 378 930

between 9.00am and 5:00pm Melbourne time

Company Website

www.afterpay.com.au

www.afterpay.com.au