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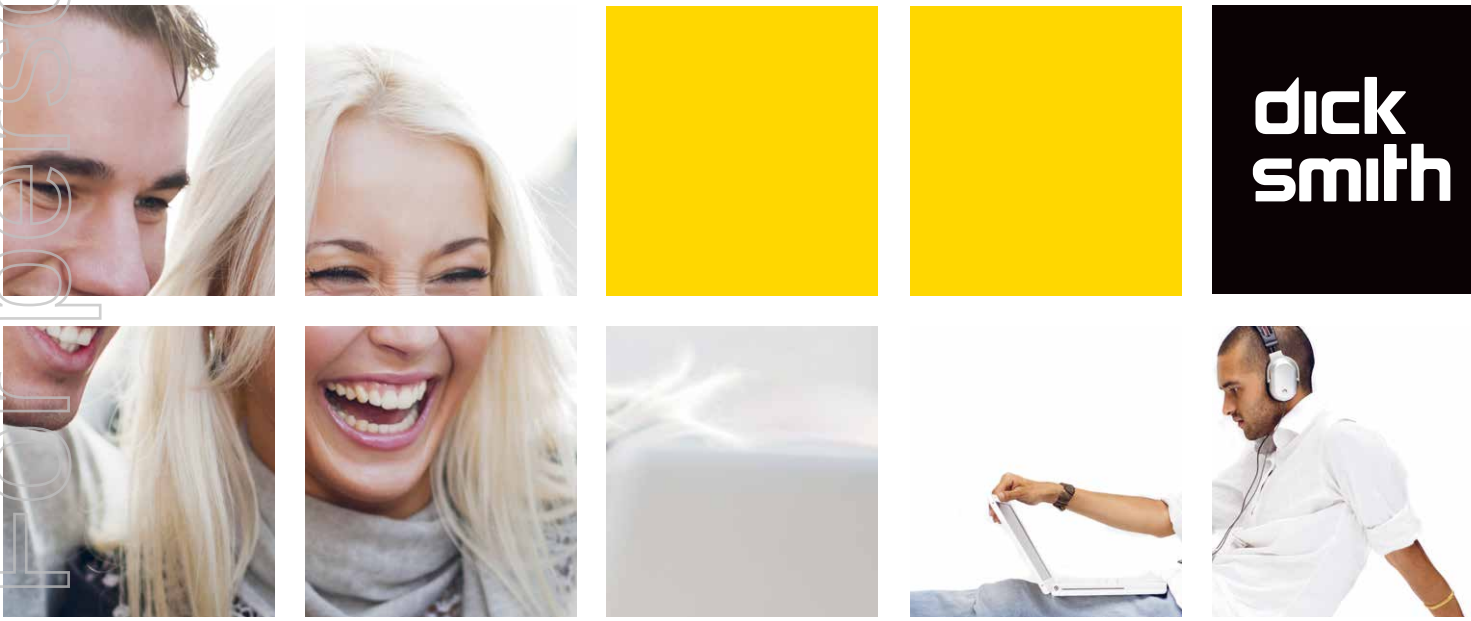
Dick Smith Holdings Limited

Prospectus



dick smith

Joint Lead Managers

Goldman Sachs

MACQUARIE

IMPORTANT NOTICES

The Offer

This document ("Prospectus") is issued by Dick Smith Holdings Limited ACN 166 237 841 ("Company") for the purposes of Chapter 6D of the Corporations Act 2001 (Cth) ("Corporations Act"). The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in the Company ("Shares") that will be issued by the Company in its initial public offering ("Offer"). Refer to Section 8 of this Prospectus for further information.

At the Prospectus Date (defined below), the Company had 100 Shares on issue and had not traded. Following settlement of the Offer ("Settlement"), the Company will acquire Dick Smith Sub-Holdings Pty Limited (formerly Dick Smith Holdings Pty Limited) ACN 160 162 925 ("Dick Smith Sub"). Refer to Section 8 for further information.

In this Prospectus, references to "Dick Smith" relating to any period prior to the Acquisition, refer to DSE Holdings Pty Limited ACN 001 456 720 ("DSE") and its subsidiaries; prior to Settlement, refer to Dick Smith Sub and its subsidiaries; and, after Settlement, refer to the Company and its subsidiaries.

Lodgement and Listing

This Prospectus is dated 21 November 2013 and was lodged with the Australian Securities and Investments Commission ("ASIC") on that date ("Prospectus Date"). This is a replacement prospectus which replaces the prospectus dated 14 November 2013 and lodged with ASIC on that date ("Original Prospectus"). The Company applied to ASX Limited ABN 98 008 624 691 within seven days after the date of the Original Prospectus, for admission to the Official List and quotation of its Shares on 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. As set out in Section 8, it is expected that the Shares will be quoted on ASX initially on a conditional and deferred settlement basis. 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.

While the Offer is being extended to New Zealand investors under the mutual recognition regime (see 'Important information for New Zealand investors' below) no application for listing and quotation is being made to NZX Limited at this time.

Expiry Date

This Prospectus expires on the date which is 13 months after the Prospectus Date ("Expiry Date") and no Shares will be issued on the basis of this Prospectus after the Expiry Date.

Not investment advice

The information 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 before deciding whether to invest in the Company.

In particular, you should consider the assumptions underlying the Forecast Financial Information and the risk factors that could affect the performance of Dick Smith. You should carefully consider these risks in the light of your personal circumstances (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest in the Company. Some of the key risk factors that should be considered by prospective investors are set out in Section 6.1. 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 Dick Smith. 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 rely only 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 Listing Rules. Refer to Section 8 for further information.

Financial information presentation

References to FY2011 refer to the financial year ended 26 June 2011. References to FY2012 refer to the financial year ended 24 June 2012. References to FY2013 refer to the financial year ended 30 June 2013. References to FY2014 refer to the financial year ending 29 June 2014. References to FY2015 refer to the financial year ending 29 June 2015. References to 1H2011 refer to the six months ended 26 December 2010. References to 1H2012 refer to the six months ended 25 December 2011. References to 1H2013 refer to the six months ended 23 December 2012. References to 1H2014 refer to the six months ending 29 December 2013. References to 1Q2014 refer to the three months ended 29 September 2013. References to 2H2011 refer to the six months ended 26 June 2011. References to 2H2012 refer to the six months ended 24 June 2012. References to 2H2013 refer to the six months ended 30 June 2013. References to 2H2014 refer to six months ending 29 June 2014. The Historical Financial Information for FY2011, FY2012, FY2013 and 1Q2014 included in this Prospectus has been prepared and presented in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, except where otherwise stated. The Forecast Financial Information included in this Prospectus is unaudited and is based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information is, to the extent applicable, consistent with the basis of preparation and presentation of the Historical Financial Information. The Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Section 5. Section 5 sets out in detail the financial information referred to in this Prospectus and the basis of preparation of that information.

Investors should be aware that certain financial data included in this presentation 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 Dick Smith. The non-IFRS financial measures do not have a 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 presentation.

Unless otherwise stated or implied, all pro forma data in this Prospectus gives effect to the pro forma adjustments referred to in Section 5.

Financial and non-financial data is as at 15 October 2013, unless otherwise stated or implied.

Forward looking statements

This Prospectus contains forward looking statements which may be identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that connote risks and uncertainties. Certain statements, beliefs and opinions contained in this document, particularly those regarding the possible or assumed future financial or other performance of Dick Smith, industry growth or other trend projections are or may be forward looking statements. In addition, consistent with customary market practice in securities offerings in Australia, Forecast Financial Information has been prepared and included in this Prospectus, in Section 5. Any forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual events or outcomes to differ materially from the events or outcomes expressed or anticipated in these statements, many of which are beyond the control of the Company and its Directors. The Forecast Financial Information and the forward looking statements should be read in conjunction with, and qualified by reference to, the risk factors as set out in Section 6, the general and specific assumptions set out in Section 5.11, the sensitivity analysis set out in Section 5.12 and other information contained in this Prospectus.

The Directors cannot and do not give 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. 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 3, 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 risk factors set out in Section 6.

Foreign jurisdictions

This Prospectus does not constitute an offer or invitation to apply for 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 Shares or the Offer, or to otherwise permit a public offering of the Shares, in any jurisdiction outside Australia or New Zealand.

The distribution of this Prospectus outside Australia or New Zealand may be restricted by law and persons who come into possession of this Prospectus outside Australia or New Zealand 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 Shares in certain jurisdictions outside of Australia, please refer to Section 8.

This Prospectus may not be distributed to, or relied upon by, persons in the United States or to or for the account or benefit of US Persons. The Shares have not been, and will not be, registered under the United States Securities Act of 1933 ("Securities Act") or the securities laws of any state of the United States, and may not be offered or sold in the United States, except in a transaction exempt from, or not subject to, registration under the Securities Act and applicable US state securities laws.

Important information for New Zealand investors

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008. This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and Regulations (Australia) set out how the offer must be made. There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime. The rights, remedies and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies and compensation arrangements for New Zealand securities. Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint. The taxation treatment of Australian securities is not the same as for New Zealand securities. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Offer Price is in Australian dollars. The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

A copy of this Prospectus and other documents relating to the Offer have been, or will be, lodged with the New Zealand Companies Office under the mutual recognition regime.

While the Offer is being extended to New Zealand investors under the mutual recognition regime, no application for listing and quotation is being made to NZX Limited.

Exposure Period

The Corporations Act prohibits the Company from processing applications to subscribe for Shares in the seven day period after the date of the Original Prospectus ("Exposure Period"). ASIC may extend this period by up to a further seven days (i.e. up to a total of 14 days). The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds. The examination may result in the identification of certain deficiencies in this Prospectus in which case any application 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 the Exposure Period. No preference will be given to applications received during the Exposure Period.

Prospectus availability

This Prospectus is available to Australian and New Zealand investors in electronic form at www.dicksmith.com.au. The Offer constituted by this Prospectus in electronic form is available only to persons within Australia or New Zealand. It is not available to persons in other jurisdictions (including the United States or US Persons). Persons having received a copy of this Prospectus in its electronic form may, before the closing date for the Retail Offer, obtain a paper copy of this Prospectus (free of charge) by calling the Dick Smith Offer Information Line on 1800 129 386. If you are eligible to participate in the Offer and are calling from outside Australia, you should call the Dick Smith Offer Information Line on +61 2 8767 1321 from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only).

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.dicksmith.com.au. Applicants under the Chairman's List Offer must apply electronically at www.dicksmith.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.

No cooling-off rights

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

Defined terms and abbreviations

Some words and expressions used in this Prospectus have defined meanings, some of which are explained in the Glossary. Unless otherwise stated or implied, a reference to a date or time in this Prospectus is to the date or time in Sydney, Australia. Unless otherwise stated or implied, references to dates or years are calendar year references. All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and the sum of components in tables contained in this Prospectus are due to rounding.

Privacy

By completing an Application Form, you are providing personal information to the Company and the Share Registry, which is contracted by the Company to manage applications to subscribe for Shares. The Company and the Share Registry on its behalf, collect, hold and use that personal information to process your application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. Once you have become a Shareholder, the Corporations Act requires that information about you (including your name, address and details of the Shares you hold) are included on the Shareholder register. The information must continue to be included in the Shareholder register if you cease to be a Shareholder. If you do not provide all the information requested, your Application Form may not be able to be processed.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including the following or as otherwise authorised under the Privacy Act 1988 (Cth):

- the Share Registry for ongoing administration of the Shareholder register;
- the Joint Lead Managers in order to assess your application; printers and other companies for the purpose of preparation and administration of documents and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by or on behalf of the Company. You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Share Registry. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Share Registry if any of the details you have provided change. In accordance with the requirements of the Corporations Act, information on the Shareholder register will be accessible by members of the public.

Photographs and diagrams

Photographs and diagrams used in this Prospectus are for illustration only and should not be interpreted to mean that any person shown in them endorses this 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. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Website

The Company maintains a website at www.dicksmith.com.au. Information contained in or otherwise accessible through this or a related website is not a part of this Prospectus.

Offer management

The Offer is managed and underwritten by Goldman Sachs Australia Ltd and Macquarie Capital (Australia) Limited ("Joint Lead Managers").

Investigating Accountant's Report on the Financial Information and financial services guide

The provider of the Investigating Accountant's Report on the Financial Information is required to provide Australian Retail Investors with a financial services guide in relation to its independent review under the Corporations Act. The Investigating Accountant's Report and accompanying financial services guide are provided in Section 9.

Questions

If you have any questions about how to apply for Shares, please call your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser. Instructions on how to apply for Shares are set out in Section 8 of this Prospectus and on the back of each Application Form. Alternatively, please call the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or +61 2 8767 1321 (outside Australia) from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only).

Sample

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Contents

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Chairman's letter

Dear investor,

On behalf of the directors of Dick Smith Holdings Limited, I am delighted to present you with the opportunity to become a shareholder of Dick Smith, one of the largest and most trusted retailers of consumer electronics products in Australia and New Zealand.

Dick Smith operates the largest consumer electronics store network in Australia and New Zealand, which is complemented by a comprehensive omni-channel capability. It is one of Australia's most trusted and well-known brands, renowned for its knowledgeable in-store sales staff, customer service, leading range of consumer electronic brands, convenient locations and competitive prices. Its product range focuses on the office and mobility categories and related accessories, which the Directors consider to be attractive categories in terms of profit margins and growth, as well as entertainment products and related accessories. Dick Smith's product offering is reinforced by strong supplier strategic relationships, as evidenced by our Apple and Samsung store-in-store formats. The Company had a network of 359 stores across Australia and New Zealand at 15 October 2013 and expects to generate pro forma revenues of $1.23 billion in FY2014.

Over the past year, Dick Smith has undergone a significant transformation under the leadership of Managing Director and CEO, Nick Abboud. Nick and his management team have driven a comprehensive program of strategic, customer, operational and cultural initiatives which, supported by the enthusiasm and commitment of the store and store support teams, have already delivered substantial improvements to financial performance, and have positioned the Company for future growth. It is expected that these programs will continue to deliver additional financial benefits in the coming years. The transformation and growth initiatives underpin Dick Smith's forecast growth to an expected pro forma EBITDA of $71.8 million in FY2014. The Directors believe that the significant increase in the underlying profitability of Dick Smith and the sustainability of the increase have been evidenced in our strong 1Q2014 results. The management team that drove the transformation is committed to the Company and will effectively retain all of their existing equity stakes, such that, on Listing, they will collectively hold approximately 11.5% of the Shares on issue.

As part of the transformation program, Nick has established a platform for the future growth of the business based on four main initiatives: growing the store network, expanding our omni-channel offering, driving growth in our mobility category and expanding our private label offering. Under this growth program, we have already opened five new stores in FY2014 and plan to open 11 more this financial year, taken over the operation of David Jones' consumer electronics departments, launched our new multi-carrier mobile offering, and opened our first mobility-focused Move store concept.

Dick Smith is currently majority owned by funds associated with Anchorage Capital Partners, with the balance held by current members of the Board and the management team. As part of the Offer, Anchorage will remain as a key shareholder in Dick Smith, and after the Offer will retain an interest of 20.0% in the Company. This reflects Anchorage's support in continuing to deliver the benefits of the transformation program and Anchorage's confidence in the Company's forecast financial performance. Anchorage has also made a commitment to retain its interest in the Company until the announcement of the Company's FY2014 financial results to the ASX. The reduction in Anchorage's holding will enable public market investors (including customers and employees of Dick Smith) to participate in the continued development and future success of Dick Smith.

This Prospectus contains detailed information about the Offer, the industry in which Dick Smith operates, the transformation of Dick Smith, Dick Smith's growth strategy, and its financial and operating performance. Like other businesses, Dick Smith is subject to a range of risks including changes to the retail and general economic environment in Australia and New Zealand, loss of key management personnel, increased competition, changing customer preferences, the rate of technological change and that the transformation and growth initiatives might not meet their objectives. Some of the risks of investing in the Company are detailed in Section 6. I encourage you to read this document carefully and in its entirety before making your investment decision.

This Offer provides an opportunity for you to share in our exciting future. On behalf of the Board of Directors, I look forward to welcoming you as a fellow Shareholder.

Yours sincerely

Phil Cave AM
Chairman
Dick Smith Holdings Limited

1. Prospectus overview

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Important dates

Important dates	
Original Prospectus lodgement date	Thursday, 14 November 2013
Institutional Offer opens	Thursday, 21 November 2013
Institutional Offer closes	Thursday, 21 November 2013
Allocation announced	Thursday, 21 November 2013
Retail Offer opens	Friday, 22 November 2013
Retail Offer closes	Monday, 2 December 2013
Expected commencement of trading on ASX on a conditional and deferred settlement basis	Wednesday, 4 December 2013
Settlement of the Offer	Friday, 6 December 2013
Completion of the Offer (Shares issued to successful applicants)	Monday, 9 December 2013
Expected commencement of trading of Shares on ASX on a deferred settlement basis	Monday, 9 December 2013
Expected mailing of initial holding statements	Wednesday, 11 December 2013
Expected commencement of trading of Shares on ASX on a normal settlement basis	Thursday, 12 December 2013

These dates are indicative only and may change. The Company, with the agreement of the Joint Lead Managers, reserves the right to amend any and all of the above dates without notice to you (including, subject to the Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer, to accept late applications, either generally or in particular cases, or to withdraw the Offer before Settlement). If the Offer is withdrawn before the issue of Shares, then all Application Monies will be refunded in full (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their applications as soon as possible after the Offer opens.

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Key Offer statistics

Key Offer statistics	
Offer Price	$2.20 per Share
Total number of Shares to be issued under the Offer[1,2]	156.6 million
Number of Shares held by Anchorage at completion of the Offer[2,3]	47.3 million
Total number of Shares on issue at completion of the Offer	236.5 million
Market capitalisation[4]	$520.3 million
Enterprise value[5]	$533.8 million
Enterprise value/pro forma forecast FY2014 EBITDA[6] (times)	7.4x
Indicative Price Range/pro forma forecast FY2014 NPAT per Share[7] (times)	13.0x
Indicative annual dividend yield (based on a dividend payout ratio of 60% to 70% and pro forma forecast FY2014 NPAT)[8]	4.6 to 5.4%

1 The total number of Shares to be issued under the Offer includes the Shares to be issued under the Employee Award Offer.

2 This table and this Prospectus are prepared on the assumption that Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer. The Offer is conditional on, among other things, Anchorage making such an election. See Sections 8.2 and 10.4.1 for further details of the conditions of the Offer and the terms of the Sale Deed.

3 These Shares will be subject to voluntary escrow arrangements until the Company's audited financial accounts for FY2014 are released to ASX by the Company, as described further in Section 8.9.

4 Calculated as the total number of Shares on issue following the Offer multiplied by the Offer Price.

5 Calculated as the market capitalisation of the Company, based on the Offer Price, plus pro forma net debt as at 30 June 2013.

6 The enterprise value/EBITDA multiple is calculated as the expected enterprise value of the Company based on the Offer Price, divided by pro forma forecast FY2014 EBITDA. This multiple represents a valuation metric that may enable prospective investors to assess the valuation of comparable businesses before the impact of depreciation, amortisation and different capital and taxation structures.

7 This ratio is commonly referred to as a forward price to earnings, or forward PE, ratio. A forward PE ratio is a company's share price divided by its forecast annual earnings per share.

8 Indicative annual dividend yield is calculated as the implied dividend per Share based on the Company's target dividend payout ratio range of 60% to 70% and the pro forma forecast FY2014 NPAT, divided by the Offer Price. It is the Board's current intention to pay a dividend in respect of the period from completion of the Offer to 29 June 2014, in October 2014. However, the payment of dividends by the Company, if any, subject to law, is at the complete discretion of the Directors. The decision as to whether or not a dividend will be paid is subject to a number of considerations including the general business environment, the operating results and the financial position of Dick Smith, capital requirements, regulatory restrictions and any other factors the Directors may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend and this indicative dividend yield is not a forecast. For more information on the Company's dividend policy, see Section 5.17.

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Investment overview

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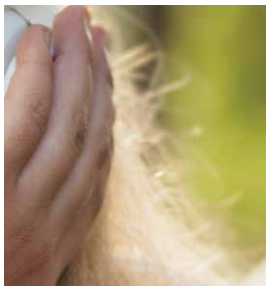

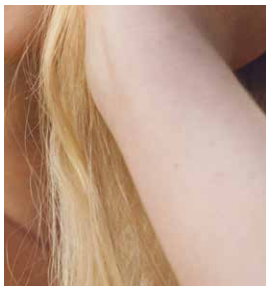

2. Investment overview

2.1 Overview of Dick Smith's business and key features of its business model

Topic	Summary	For more information
What is Dick Smith?	Dick Smith is a leading retailer of consumer electronics products in Australia and New Zealand. With 359 stores across Australia and New Zealand, pro forma revenue of $1.28 billion in FY2013, and approximately 3,700 employees, Dick Smith is the largest consumer electronics retailer in Australia and New Zealand by total number of stores[1] and is one of the largest by total retail sales value[2]. Dick Smith is an iconic, trusted and well-known consumer brand[3]. Dick Smith is renowned for its convenient store locations, range of leading consumer electronics brands, competitive prices, strong customer service and knowledgeable staff. Dick Smith's range focuses on the office and mobility product categories and related accessories, which together accounted for 68% of FY2013 pro forma revenue, as well as entertainment products and other services. Dick Smith operates an extensive omni-channel platform which complements its leading and large consumer electronics physical store network. The omni-channel platform includes transactional websites, transactional mobile websites and first-to-market transactional apps. Dick Smith also offers click-and-collect, which allows customers the convenience of local store collection, and has commenced delivering direct from store to customers to provide faster customer delivery. 1 Source: Dick Smith store numbers as at 15 October 2013; competitors' store numbers as per latest annual reports, public disclosures and company websites (as at 15 October 2013). Note: Includes all banner formats. 2 Source: Management estimate. 3 Source: Reader's Digest: Most Trusted Brands 2013: Iconic Brands category.	Section 4.1
What is Dick Smith's history and what has happened in the last 12 months?	Dick Smith was founded in 1968 by Australian entrepreneur Richard 'Dick' Smith AO[1]. On 26 November 2012, Dick Smith Sub, an entity then 98% owned by Anchorage and 2% owned by LMA Investments (an entity controlled by Nick Abboud, the Managing Director and CEO of the Company), acquired Dick Smith from Woolworths which had owned Dick Smith for the prior 30 years. In the period since the Acquisition, the new management team, led by Nick Abboud, has driven a rapid transformation of Dick Smith through the implementation of a comprehensive program of strategic, customer, operational and cultural initiatives, which have already delivered substantial improvements to financial performance and have positioned the Company for ongoing future growth. It is expected that these programs will continue to deliver additional financial benefits in the coming years. Recent survey data shows that the benefits of Dick Smith's transformation are being recognised by customers, with improvement noticed in key areas of Dick Smith's proposition: price, range, service, overall customer experience and trust of the brand. 1 Dick Smith has no ongoing relationship with Richard Smith AO, or Dick Smith Foods Pty Limited.	Section 4.1

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2. Investment overview

Topic	Summary	For more information
What products does Dick Smith sell?	Dick Smith sells a wide range of products across four categories, being office; mobility; entertainment; and other products and services. Dick Smith offers approximately 6,800 SKUs from a wide selection of the leading consumer electronics brands, as well as its own Dick Smith private label brand. **Office:** Includes desktop computers, ultrabooks, laptops, notebooks, monitors, printers, inks, and other peripherals, tablets, e-readers, notebook bags, ultrabook sleeves and related accessories (e.g. adaptors, cables etc.). **Mobility:** Includes mobile phone handsets and network access through pre-paid and post-paid contracts, SIM cards as well as accessories (e.g. covers, calling cards, phone covers, screen protection, travel accessories, chargers etc.). **Entertainment:** Includes televisions, visual components (e.g. DVD and Blu-ray players), audio and portable audio products, digital cameras, headphones and docks, gaming and related accessories (e.g. cables, memory cards, camera cases etc.). **Other products and services:** Includes provision of post-sale services (e.g. installation, training, troubleshooting), as well as sale of warranties, credit cards, gift cards and some small appliances.	Section 4.2
What is Dick Smith's store network?	Dick Smith operates 359 physical stores, providing it with the largest number of consumer electronics stores in Australia and New Zealand. Dick Smith's physical store network consists of, in Australia, 267 Dick Smith branded stores, 30 David Jones Electronics Powered by Dick Smith stores and one Move store concept, and in New Zealand, 61 Dick Smith branded stores. **Dick Smith branded stores** ■ Product range focused on the mobility and office categories and related accessories, with a broad range in the entertainment category; low, medium and premium price tiers; broad demographic appeal; and average store size of approximately 500 square metres. **David Jones Electronics Powered by Dick Smith stores** ■ Product range focused on aspirational products and brands; mid to premium price points; an affluent demographic; and average store size of approximately 300 square metres. **Move stores** ■ Product range focused on mobility products and related accessories with an emphasis on fashion; a younger, affluent demographic; and intended to be smaller than the average Dick Smith store at around 150 to 200 square metres.	Section 4.2

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2. Investment overview

Topic	Summary	For more information
What are the strengths of Dick Smith's business model?	**Iconic brand with an attractive market positioning** ■ Dick Smith is an iconic, trusted and well-known consumer brand[1], with a differentiated customer proposition based on product range, service and advice. The Company also has an attractive market position through operating the largest consumer electronics store network in Australia and New Zealand, complemented by a comprehensive omni-channel offering. The Directors believe its product range is skewed positively towards categories that are attractive in terms of margins and growth. **Transformed business model that is well positioned for future growth** ■ Dick Smith's new and experienced management team, led by Nick Abboud, has driven a significant transformation of the business through a comprehensive program of strategic, customer, operational and cultural initiatives. This program has already delivered substantial improvements to financial performance, as evidenced in the 1Q2014 results. It is expected that these programs will continue to deliver additional financial benefits in the coming years. Pro forma EBITDA is forecast to grow to $71.8 million in FY2014 from $23.4 million in FY2013. **Clearly defined, multi-faceted growth strategy: store network, omni-channel, mobility, private label** ■ Dick Smith has a clearly defined strategy to seek to deliver sustained revenue and earnings growth. This strategy is based on four main opportunities, being growing the store network, developing a superior omni-channel offer, enhancing the mobility offering, and increasing private label growth and profit contribution (refer below for further details). **Highly experienced and proven senior management team** ■ The Dick Smith management team, led by Nick Abboud, has over 200 years of retail, leadership and transformation experience in aggregate and has been responsible for driving the rapid transformation of Dick Smith since the Acquisition on 26 November 2012. This new management team has also instilled a results driven, high performance culture and improved retailing disciplines across all levels of the organisation. The management team is committed to the Company, and will effectively retain all of their existing equity stakes, such that, on Listing, they will collectively hold approximately 11.5% of the Shares on issue. 1 Source: Reader's Digest: Most Trusted Brands 2013: Iconic Brands category.	Section 4.3

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2. Investment overview

Topic	Summary	For more information
What are Dick Smith's growth drivers?	**Store network growth** ■ Management has opened five new Dick Smith branded stores in FY2014, with plans to open a further 11 new stores in the remainder of FY2014, and believes there is an opportunity to roll out additional new Dick Smith branded stores in the medium term. Based on the more profitable store model, management has identified numerous attractive locations for potentially profitable Dick Smith branded stores, including some network gaps created by the store closures conducted prior to the Acquisition. In addition, in October 2013 Dick Smith launched its multi-banner strategy by taking over operation of 30 David Jones Electronics Powered by Dick Smith stores, and opening the first Move store concept. **Superior omni-channel offer** ■ Dick Smith has begun expanding its already wide-ranging omni-channel offering and taking advantage of its large store network, by beginning to fulfil customer deliveries from stores. This will allow it to offer cheaper, faster and more flexible customer delivery options. The Company is also planning to significantly increase the number of products it offers online to increase sales without having to increase the numbers of SKUs ranged in stores, and to continue to roll out its online portal. The Company is also continuing to drive improvements to its digital platforms to refine and optimise its omni-channel transaction platforms. **Enhanced mobility offering** ■ Dick Smith is the only leading consumer electronics retailer to offer access to all the major mobile networks in Australia via both pre-paid and, since September 2013, post-paid connections, the largest segment of the mobile phone handset market. Dick Smith complements this network offering with a leading range of handset brands, which can be bought with or without a contract, and accessories, positioning the Company to capitalise on the growth in the mobile phone category. Mobility shop-in-shops are also being rolled out to most new stores. **Increased private label growth and profit contribution** ■ Management, enabled by a new direct sourcing team based in Hong Kong, is focused on increasing sales and margins of private label products through an expanded private label product range, revised price positioning, new product packaging, and the possible creation of a portfolio of additional private label brands. **Other growth initiatives** In addition, Dick Smith plans to drive sales growth via: ■ improving the market position and strength of the Dick Smith brand in New Zealand; ■ optimising the customer offer in David Jones Electronics Powered by Dick Smith stores; and ■ adjusting categories currently sold in the store network and introducing new categories to position Dick Smith at the forefront of changing customer preferences for technology and related products and services.	Section 4.4

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Topic	Summary	For more information
What are the key risks for Dick Smith?	**Retail environment and general economic conditions in Australia and New Zealand may worsen** ■ Australian and New Zealand economic conditions may worsen which could cause the retail environment to deteriorate. In addition, the consumer electronics market may experience further periods of price deflation and input prices may be impacted by the devaluation of the Australian dollar. Should either of these occur, they may have an adverse impact on Dick Smith's future financial performance. **Loss of key management personnel** ■ Dick Smith's success depends to a significant extent on its key personnel and the senior management team, in particular Nick Abboud. Dick Smith may not be able to attract and retain key staff or be able to find effective replacements in a timely manner. The loss of key personnel, or any delay in their replacement, may adversely affect Dick Smith's future financial performance. **Competition may increase** ■ The Australian and New Zealand consumer electronics industry is highly competitive. Dick Smith's competitive position may deteriorate as a result of factors including actions by existing competitors and online competitors, the entry of new competitors or a failure by Dick Smith to successfully respond to changes in the industry. Any deterioration in Dick Smith's competitive position may have an adverse effect on Dick Smith's future financial performance. **Customer preferences may change** ■ Dick Smith's revenues are almost entirely generated from consumer electronics related products which are subject to sometimes unpredictable changes in customer preferences. Failure by Dick Smith to predict or respond to any such changes in customer preferences could adversely impact Dick Smith's future financial performance and/or may lead to increased obsolete inventory risk. **Rate of technology change** ■ Technology changes could drive a change in the level of demand for consumer electronics products, for example a lower rate of new product development leading to lower demand or a higher rate of development impacting the prices that customers are willing to pay due to obsolescence risk. In addition, rapid changes in technology may lead to Dick Smith's competitors introducing technologies that provide them with a competitive advantage relative to Dick Smith and/or may lead to increased obsolete inventory risk. **The transformation and growth initiatives might not meet their objectives** ■ The benefits of Dick Smith's transformation and growth initiatives may be subject to delays, costs may overrun or the initiatives may not generate the sustainable sales or profit growth anticipated. Further, Dick Smith's current strategy may not be successful in part or at all, and stated objectives may not be achieved within a satisfactory period of time. In addition, the implementation of the transformation and growth initiatives began later in New Zealand than in Australia. Accordingly, this risk is more prevalent in New Zealand.	Sections 6.2 and 6.3

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Topic	Summary	For more information
What are the key risks for Dick Smith? continued	**Brand names may diminish in reputation and value** ■ The Dick Smith portfolio of brand names and related intellectual property are key assets of the business. Significant erosion in the reputation of, or value associated with, these brands could have an adverse impact on Dick Smith's future financial performance. **Relationships with suppliers may deteriorate** ■ The loss or deterioration of Dick Smith's relationships with key brand owners, service providers or suppliers, or an inability to renew contractual arrangements with such parties or negotiate agreement with new parties on terms which are not materially less favourable than existing arrangements, are likely to have an adverse effect on Dick Smith's future financial performance. **Ability to attract and retain staff may decrease** ■ Dick Smith's business is dependent on attracting and retaining a large number of quality employees. Changes that adversely impact Dick Smith's ability to attract and retain quality employees could adversely affect Dick Smith's future financial performance. **New store roll out program may not meet its objectives** ■ Any delay or failure to open new stores could have an adverse effect on Dick Smith's future financial performance. In addition, there is a risk that new stores opened by Dick Smith may be unprofitable, may reduce revenues of existing stores to a greater extent than predicted, or may incur establishment costs that are greater than budgeted for. **Relationships with landlords may deteriorate** ■ Any default under a lease by Dick Smith, failure to renew existing leases on acceptable terms, or inability to negotiate alternative arrangements could materially adversely affect Dick Smith's ability to operate stores in preferred locations. In addition, there is a risk that Dick Smith may become subject to lease terms which are less favourable. **Changes in laws and regulations** ■ A failure to comply with current and future laws and regulations particularly in respect of consumer laws and consumer credit laws, may result in Dick Smith not being able to conduct operations. **Adverse movements in exchange rates** ■ Dick Smith is exposed to exchange rate movements, in particular movements in the A$/NZ$ rate, A$/US$ rate and NZ$/US$ rate. Movements in foreign exchange rates, particularly the A$/US$ rate and the NZ$/US$ rate, may have an impact on Dick Smith's future financial performance. **Anchorage will retain a significant holding** ■ On completion of the Offer, it is expected that Anchorage will hold 20.0% of the Shares on issue and those Shares will be subject to the escrow arrangements described in Section 8.9. This will make Anchorage the largest Shareholder and may adversely affect the liquidity of the market for the Shares. Additionally, Anchorage may have the ability to influence the appointment of Directors and new management, as well as the outcome of matters submitted to Shareholders. Also, the sale of Shares in the future by Anchorage could adversely affect the market price of the Shares.	

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2. Investment overview

Topic	Summary	For more information
What is Dick Smith's historical and forecast financial performance?		Section 5

	Pro forma historical				Pro forma forecast	Statutory forecast
($m)	**FY2011**	**FY2012**	**FY2013**	**1Q2014**	**FY2014**	**FY2014**
Sales	1,281.1	1,369.5	1,280.4	273.3	1,226.0	1,226.0
Gross profit	335.2	340.0	303.6	68.4	307.8	307.8
EBITDA	36.5	32.6	23.4	11.6	71.8	46.6
EBIT	23.9	20.1	10.9	9.0	58.7	33.5
NPAT	15.9	13.2	6.7	6.1	40.0	11.5

Notes: The Financial Information presented above is a summary only and should be read in conjunction with the more detailed discussion of the Historical Financial Information and the Forecast Financial Information in Section 5, including the assumptions, management discussion and analysis and sensitivity analysis, as well as the risk factors set out in Section 6. A reconciliation of the pro forma forecast and statutory forecast income statements is provided in Section 5.7.

Dick Smith's FY2011, FY2012 and FY2013 pro forma historical financials were impacted by the corporate strategy and operational execution adopted by Dick Smith under its previous management and owner. DSE was acquired by Dick Smith Sub on 26 November 2012. Immediately upon Acquisition, the new management team, led by Nick Abboud drove a significant transformation of the business through a comprehensive program of strategic, customer, operational and cultural transformation initiatives.

The transformation and growth initiatives underpin Dick Smith's forecast growth to an expected pro forma EBITDA of $71.8 million in FY2014. The Directors believe that the significant increase in the underlying profitability of Dick Smith and the sustainability of the increase have been evidenced in the 1Q2014 results. It is expected that this transformation program will continue to deliver additional financial benefits in the coming years.

What is the Company's dividend policy?	The Directors' current intention is to pay out approximately 60% to 70% of the Company's annual pro forma net profit after tax in respect of the period from completion of the Offer to 29 June 2014 (and of the Company's annual net profit after tax in subsequent financial years) in dividends. It is intended that dividends will be franked to the fullest extent possible. It is the Board's intention to pay interim dividends in respect of the first half of the financial years and final dividends in respect of the full financial years. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October. The payment of dividends by the Company, if any, is at the complete discretion of the Directors. The decision as to whether or not a dividend will be paid is subject to a number of considerations including the general business environment, the operating results and financial position of Dick Smith, capital requirements, regulatory restrictions and any other factors the Directors may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.	Section 5.17
When will the first dividend be paid?	It is the Board's current intention to pay a dividend for the period from completion of the Offer to 29 June 2014, in October 2014.	Section 5.17

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2. Investment overview

2.2 Overview of the Offer

Topic	Summary	For more information
What is the Offer?	The Offer is an invitation to subscribe for 156.6 million Shares that will be issued by the Company in its initial public offering. The Shares to be issued under the Offer will represent 66.2% of the Shares on issue following Settlement.	Sections 8 and 10.4.2
What is the Company?	The Company, Dick Smith Holdings Limited, is a new public company established to be the holding company of Dick Smith from Settlement. The Company is the issuer of this Prospectus and the Shares, and will acquire Dick Smith Sub under the Sale Deed.	Sections 8 and 10.4.1
Who owns Dick Smith now?	Dick Smith Sub is the current holding company for Dick Smith. As at the Prospectus Date, the majority of its shares are owned by Anchorage, with the balance being owned by LMA Investments (an entity controlled by Nick Abboud) and the other Management Shareholders, and the Baden Shareholder owning options over shares. Anchorage is an Australian-based turnaround and special situations private equity firm with approximately $450 million in funds under management. Anchorage's principals have been investing in turnarounds in Australia, New Zealand and Asia for more than 25 years.	Section 8.1
What is the Offer price/size?	Offer Price: $2.20 per Share Total number of Shares to be issued under the Offer[1,2]: 156.6 million Number of Shares to be held by Anchorage at completion of the Offer[2,3]: 47.3 million Total number of Shares on issue at completion of the Offer: 236.5 million 1 The total number of Shares to be issued under the Offer includes the Shares to be issued under the Employee Award Offer. 2 This table and this Prospectus are prepared on the assumption that Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer. The Offer is conditional on, among other things, Anchorage making such an election. See Sections 8.2 and 10.4.1 for further details of the conditions of the Offer and the terms of the Sale Deed. 3 These Shares will be subject to voluntary escrow arrangements until the Company's audited financial accounts for FY2014 are released to ASX by the Company, as described further in Section 8.9.	Section 8.1

2. Investment overview

Topic	Summary	For more information
Why is the Offer being conducted?	The Offer is being conducted to: ■ give Anchorage an opportunity to realise part of its investment in Dick Smith now that the major transformation initiatives have been implemented, given that Anchorage is a turnaround-focused private equity firm (Anchorage's retention of a 20.0% holding of Shares reflects its support in continuing to deliver the benefits of the transformation program and Anchorage's confidence in the Company's forecast financial performance). In particular, the Offer raises capital to fund the acquisition of Dick Smith Sub Shares by the Company from Anchorage under the Sale Deed[1]; ■ attract and retain high quality management by building Dick Smith's profile and reputation via listing, as well as to provide an ongoing measure of wealth through publicly listed equity; ■ provide Dick Smith with access to the capital markets to improve capital management flexibility; ■ provide the Dick Smith business with the benefits of an increased profile that arises from being a listed entity; ■ assist Dick Smith in attracting and retaining quality staff; ■ align the interests of management with those of shareholders through providing remuneration under broader equity-based incentive schemes, as well as through substantial and measurable Share ownership; ■ provide Dick Smith with a wider loyalty benefit of customers that are invested in the Company; and ■ provide a liquid market for the Shares. 1 The Company has offered to acquire all of the Dick Smith Sub Shares under the Sale Deed. Under the Sale Deed, the Existing Ordinary Owners (which includes Anchorage) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, Anchorage has not accepted the Sale Deed Offer. However, this Prospectus has been prepared on the assumption that Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer. The Offer is conditional on, among other things, Anchorage accepting the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and making such an election under the Sale Deed. See Sections 8.2 and 10.4.1 for further details of the conditions of the Offer and the terms of the Sale Deed, respectively.	Section 8.1

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2. Investment overview

Topic	Summary	For more information
What is the proposed use of proceeds pursuant to the Offer?	The Offer is expected to raise $344.5 million. The following table details the sources and uses of the proceeds of the Offer, based on the Offer Price and other amounts.	Section 8.1

Sources of funds under the Offer	$ million	%	Uses of funds under the Offer	$ million	%
Gross proceeds under the Offer	344.5	82.4	Payment to Anchorage[1] as cash consideration under the Sale Deed	358.1	85.6
Statutory cash as at 30 June 2013	46.5	11.1	Funds foregone by Anchorage to fund Employee Award Offer Shares	1.4	0.3
Drawdown of the New Facility	27.2	6.5	Costs of the Offer[2]	21.0	5.0
			Pro forma cash balance as at 30 June 2013	13.0	3.1
			Payment to Woolworths[1]	24.0	5.7
			Establishment costs of the New Facility	0.7	0.2
Total sources	**418.3**	**100**	**Total uses**	**418.3**	**100**

1 For details of the amount payable to Woolworths in connection with the completion of the Offer, see Section 10.6.2.

2 The costs of the Offer will be funded from Dick Smith's existing cash balances or the draw down under the New Facility.

What will happen on Settlement?	On or about Settlement, the Company will: ■ acquire Dick Smith by completing the acquisition of all the Dick Smith Sub Shares under the Sale Deed. This includes applying the cash proceeds of the Offer towards the payment to Anchorage[1] and issuing Shares to Anchorage and the other Dick Smith Sub Shareholders; then ■ issue Shares to investors under the Offer. 1 The Company has offered to acquire all of the Dick Smith Sub Shares under the Sale Deed. Under the Sale Deed, the Existing Ordinary Owners (which includes Anchorage) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, Anchorage has not accepted the Sale Deed Offer. However, this Prospectus has been prepared on the assumption that Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer. The Offer is conditional on, among other things, Anchorage accepting the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and making such an election under the Sale Deed. See Sections 8.2 and 10.4.1 for further details of the conditions of the Offer and the terms of the Sale Deed, respectively.	Section 10

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Topic	Summary	For more information
Who will own Dick Smith on completion of the Offer?		Section 8.1

	Dick Smith Sub Shares held prior to the Offer		Shares held at completion of the Offer[1]	
	Number	**% of class**	**Number**	**%**
Anchorage[2]	98,000,000 ordinary shares	98% of ordinary shares	47,302,273	20.0
LMA Investments[3]	2,000,000 ordinary shares 5,000,000 A class preference shares	2% of ordinary shares 48.4% of A class preference shares	15,330,639	6.5
Other Management Shareholders[4]	5,330,000 A class preference shares	51.6% of A class preference shares	11,758,101	5.0
Baden Shareholder[5]	2,500,000 B class preference shares	100% of B class preference shares	5,515,057	2.3
Investors in the Offer[6]	–	–	156,605,294	66.2
Total			**236,511,364**	**100%**

1 Excludes any Shares in which Directors or Management Shareholders may acquire an interest as part of the Offer at the Offer Price. See Section 10.4.1 for details of the Sale Deed pursuant to which the Company will acquire all of the Dick Smith Sub Shares.

2 Assumes Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer.

3 Under the Sale Deed, the Existing Ordinary Owners (which includes LMA Investments) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, LMA Investments has not accepted the Sale Deed Offer in respect of the ordinary Dick Smith Sub Shares it holds (although it has in respect of the A class preference Dick Smith Sub Shares it holds). However, this table and Prospectus assume that LMA Investments will accept the Sale Deed Offer and that LMA Investments will elect to receive in Shares all of the consideration under the Sale Deed in respect of LMA Investments' holding of ordinary Dick Smith Sub Shares. The Offer is conditional on, among other things, LMA Investments accepting the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and electing to receive all consideration payable to it under the Sale Deed in the form of Shares. All Shares issued to LMA Investments will be subject to voluntary escrow arrangements which are described further in Section 8.9.

4 Excludes LMA Investments (whose holdings are set out above). All Shares issued to other Management Shareholders will be subject to voluntary escrow arrangements which are described further in Section 8.9.

5 The Baden Shareholder, which is associated with Bill Wavish, holds, as at the Prospectus Date, options over B class preference Dick Smith Sub Shares. This table assumes that all of these options will be exercised prior to Settlement, that the Sale Deed Offer is accepted in respect of the B class preference Dick Smith Sub Shares issued as a result of that exercise and that those Dick Smith Sub Shares will be acquired by the Company under the Sale Deed. Any Shares acquired by the Baden Shareholder will not be subject to escrow arrangements. See Section 10.4 for further details.

6 Includes Eligible Employees that accept the Employee Award Offer and Directors to the extent that they participate in the Chairman's List Offer (as to which, see Section 8.5).

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2. Investment overview

Topic	Summary	For more information
How is the Offer structured/ who is eligible to participate?	The Offer comprises: ■ The Retail Offer consisting of the: - Broker Firm Offer which consists of an offer to investors in Australia and New Zealand who are not Institutional Investors and who have received a firm allocation of Shares from their Broker; - Employee Award Offer; and - Chairman's List Offer to selected investors who have received a Chairman's List Invitation; and ■ the Institutional Offer which consists of an offer to Institutional Investors in Australia and certain other jurisdictions around the world excluding the US.	Sections 8.3, 8.4, 8.5 and 8.6
What is the Offer Price?	The Offer Price is the price payable for a Share under the Offer. The price payable for Shares under the Retail Offer and the Institutional Offer will be the same.	Section 8.2
Is the Offer underwritten?	The Offer is fully underwritten by the Joint Lead Managers.	Section 10.5
Will the Shares be quoted?	The Company applied within seven days of the date of the Original Prospectus, to ASX for its admission to the Official List and quotation of Shares on ASX (which is expected to be under the code: DSH). Settlement of the Offer is conditional on 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 8.2
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Employee Award Offer, the Chairman's List Offer, and the Institutional Offer will be determined by the Joint Lead Managers with the agreement of the Company. The Joint Lead Managers, with the agreement of the Company, will determine the allocation of Shares among Institutional Investors. For Broker Firm Offer applicants, Brokers will determine how they allocate Shares among their retail clients. The Company, in consultation with the Joint Lead Managers, will determine the allocation of Shares among applicants under the Chairman's List Offer.	Sections 8.2, 8.3, 8.4, 8.5 and 8.6
Is there any brokerage, commission or stamp duty payable by applicants?	No brokerage, commission or stamp duty is payable by applicants on an acquisition of Shares under the Offer.	Section 8.2
What are the tax implications of investing in the Shares?	The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Sections 10.11 and 10.12
When will I receive confirmation that my application has been successful?	It is expected that initial holding statements will be mailed by standard post on or around Wednesday, 11 December 2013.	Section 8.2

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2. Investment overview

Topic	Summary	For more information
What is conditional and deferred settlement trading?	It is expected that trading of the Shares on ASX (on a conditional and deferred settlement basis) will commence on or about Wednesday, 4 December 2013. The contracts formed on acceptance of applications and confirmation of allocations will be conditional on the matters set out in Section 8.2, including completion of the acquisition of the Dick Smith Sub Shares under the Sale Deed and Settlement. It is expected that these and the other conditions will be satisfied by or about Monday, 9 December 2013. The period of conditional and deferred settlement trading allows for Shares to trade on ASX prior to (and including) this date. In the event that the acquisition of the Dick Smith Sub Shares under the Sale Deed does not complete, or that the other conditions described in Section 8.2 are not satisfied, by the end of the conditional and deferred settlement trading period, the Offer would not complete. Under this scenario, all trades conducted during the conditional and deferred settlement trading period would be invalid and will not settle. All Application Monies received would be returned to applicants. No interest will be paid on any Application Monies refunded as a result of the Offer not completing. Trading on ASX is expected to commence on a normal settlement basis on or about Thursday, 12 December 2013.	Section 8.2
How can I apply?	You may apply for Shares by completing a valid Application Form attached to or accompanying this Prospectus or, in the case of the Chairman's List Offer, completing the online Application Form accompanying the electronic version of this Prospectus. Retail Investors who receive an allocation of Shares under the Broker Firm Offer should follow the instructions provided by their Broker. To the extent permitted by law, an application by an applicant under the Offer is irrevocable.	Sections 8.3, 8.4 and 8.5
Can the Offer be withdrawn?	Yes. The Company reserves the right not to proceed with the Offer at any time before the issue of Shares to successful applicants. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 8.10
Where can I find out more information about this Prospectus or the Offer?	Call the Dick Smith Offer Information Line on 1800 129 386 (from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only)). If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest.	Section 8.2

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2.3 Key information on the Board of Directors and management

Director	Experience	For more information
Phillip Cave AM Non-executive Chairman	Phil was appointed non-executive Chairman of the Company on its formation and was non-executive Chairman of Dick Smith Sub from November 2012. Phil is Founding Partner and Chairman of Anchorage Capital Partners, a turnaround and special situations private equity firm. He is Chairman of the Bisalloy Steel Group Limited, and of the not-for-profit organisations Ability First Australia and Wesley Institute. Phil is also director of Acrow Formwork & Scaffolding Pty Limited, Total Eden Pty Limited and First Engineering Limited.	Section 7.1.1
Nicholas Abboud Managing Director and CEO	Nick was appointed Managing Director and CEO of the Company on its formation and was Managing Director and CEO of Dick Smith Sub from November 2012. Prior to his current role, Nick held various roles over a 19 year period with Myer. Most recently, Nick was Executive General Manager of National Store Operations leading a team of approximately 12,000 people.	Section 7.1.1
William Wavish Independent non-executive Director	Bill was appointed as an Independent non-executive Director of the Company on its formation and was a non-executive Director of Dick Smith Sub from November 2012. Bill is currently Chairman of Bendon Limited and has over 30 years of experience covering retail, property development, acquisitions, consulting, manufacturing and fast moving consumer goods. He has held a range of director positions and executive and senior management roles in companies operating in Australia, New Zealand and Hong Kong.	Section 7.1.1
Lorna Raine Independent non-executive Director	Lorna was appointed as an Independent non-executive Director of the Company on its formation. Lorna is a Senior Finance Executive at Fairfax Media Limited, with her most recent role as Chief Financial Officer of the Metro Media division. Prior to this, Lorna held senior management roles with Yum! Restaurants International (Australia) including General Manager Operations – KFC, KFC Market Manager (NSW), Chief Financial Officer and Strategic Planning Director.	Section 7.1.1
Robert Ishak Independent non-executive Director	Robert was appointed as an Independent non-executive Director of the Company on its formation. Robert is Chairman, Principal and co-founder of international law firm William Roberts Lawyers. Robert's areas of practice are corporate and commercial law advice and litigation and he regularly acts for and advises some of Australia's largest corporate institutions.	Section 7.1.1

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Executive	Experience	For more information
Nicholas Abboud Managing Director and CEO	Refer above.	Section 7.1.2
Michael Potts Chief Financial Officer and Company Secretary	Michael joined Dick Smith in September 2013 and is the Chief Financial Officer and Company Secretary. Prior to Dick Smith, Michael was the Chief Financial Officer and Company Secretary of Nick Scali Limited and has more than 20 years of experience in senior finance roles with major retail companies, including the Sussan Group, Bunnings and Myer.	Section 7.1.2
Armando Pedruco Director of Operations	Armando joined Dick Smith in June 1996 and was appointed Director of Operations in November 2012. Armando has led the Dick Smith operations team through major business transformations including store labour efficiency programs, rebranding, refurbishment of more than 200 stores, and the divestment by Woolworths of Dick Smith.	Section 7.1.2
Neil Merola Director of Buying and Marketing	Neil joined Dick Smith in November 2012 and is the Director of Buying and Marketing and is responsible for overseeing the buying and marketing strategy and the Hong Kong sourcing office. Neil is an experienced retailer with more than 30 years of retail and wholesale experience across both private and publicly listed companies.	Section 7.1.2
John Skellern Director of Property, Procurement and Supply Chain	John joined Dick Smith in November 2012 as Director of Property, Procurement and Supply Chain. John is an experienced retail generalist. Prior to Dick Smith, John was part of the senior management team at Myer, serving for six years as a General Manager in a variety of roles, most recently in the areas of procurement, insurance, financial and commercial services, and also spent seven years at Woolworths including leading risk, safety and insurance.	Section 7.1.2
Marcella Davis Director of Human Resources	Marcella joined Dick Smith in May 2009 as Human Resources Manager before being appointed to Director of Human Resources in November 2012. Prior to Dick Smith, Marcella had more than 12 years of experience at Woolworths in Senior Human Resources Manager roles across the Supermarkets and Corporate divisions.	Section 7.1.2
Steven Toth Director of Omni-channel and Mobility	Steve joined Dick Smith in March 2013 as Director of Mobility and was appointed Director of Omni-Channel and Mobility in September 2013. Prior to Dick Smith, Steve was the Sales Director for amaysim Australia Pty Limited, being instrumental in its launch and penetration into Australia. He also held positions with Vodafone and was Chief Executive Officer with Leading Edge NZ.	Section 7.1.2
George Papacosta Director of Buying Operations	George joined Dick Smith in November 2012 and is the Director of Buying Operations. Prior to Dick Smith, George spent more than eight years with Myer in various national and regional roles, most recently National Retail Development Manager of the Electrical division and National Operations Manager of the Entertainment division.	Section 7.1.2

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Executive	Experience	For more information
Mario Cocciolone Director of Strategic Alliances	Mario joined Dick Smith in August 2013 as Director of Strategic Alliances and is responsible for all aspects of the David Jones Electronics Powered by Dick Smith operations. Prior to this, Mario held senior roles at Myer in store operations including General Manager NSW Stores and NSW Operations Manager. Mario had been a consultant to Dick Smith during the transformation from January 2013 to August 2013.	Section 7.1.2
Timothy Fawaz Director of Finance	Tim joined Dick Smith in October 2011 and is the Director of Finance and played a key role in the divestment by Woolworths of Dick Smith. Prior to Dick Smith, Tim held a number of senior finance and commercial roles at Metcash Limited, Stockland Property Group and Woolworths Limited.	Section 7.1.2
Michael Dykes Director of Customer Strategy and Development	Michael joined Dick Smith in May 2011 as Head of Store Design. In November 2012, he was appointed as Director of Omni-channel and Strategy and was then appointed Director of Customer Strategy and Development in September 2013. Prior to Dick Smith, Michael held a management board position with Best Buy Europe and various senior management positions with Dixons Group Plc and B&Q.	Section 7.1.2
Micah Gamman Director of New Zealand	Micah rejoined Dick Smith in February 2013 as Director of New Zealand. Micah has 19 years of retail experience across sales, operations, buying and merchandise with Dick Smith and Big W. His career with Dick Smith commenced in 1994 in New Zealand, and in 2011 he moved to Big W as a Merchandise Manager before rejoining Dick Smith in his current role.	Section 7.1.2
Michael Johnson Director of Commercial and Financial Services	Michael joined Dick Smith in November 2012 as General Manager Commercial, and was appointed to Director of Commercial and Financial Services in April 2013. Prior to joining Dick Smith, Michael had had more than 25 years of experience in senior retail roles, stores, marketing, buying and retail operations with major companies, including Wesfarmers Insurance and Myer.	Section 7.1.2

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2.4 Significant interests of key people and related party transactions

				For more information
What significant benefits are payable to Directors and the other persons connected with the Offer and what significant interests do they hold?	**Key people**	**Interest or benefit**	**For more information**	Sections 7.2, 8.1 and 10.4
	Existing Owners, including: ■ Anchorage ■ LMA Investments (and Nick Abboud) ■ other Management Shareholders ■ Baden Shareholder (and Bill Wavish)	■ Sale of Dick Smith Sub Shares ■ Ownership of Shares	Sections 7.2, 8.1 and 10.4	
	Management team	■ Remuneration	Section 7.2	
	Phil Cave	■ Interest in Anchorage	Section 7.2	
	Nick Abboud	■ Payment under LMA Rights Forfeiture Deed	Sections 7.2 and 10.4	
	Other non-executive Directors	■ Directors' fees	Section 7.2	
	Advisers and other service providers	■ Fees for services	Section 7.2	

Certain Directors intend to subscribe for an aggregate of $4,900,000 worth of Shares under the Chairman's List Offer as described in Section 7.2 and, subject to receipt of ASX waivers, be paid their Director's fees in the form of Shares. Members of Dick Smith's management team may also subscribe for Shares under the Offer.

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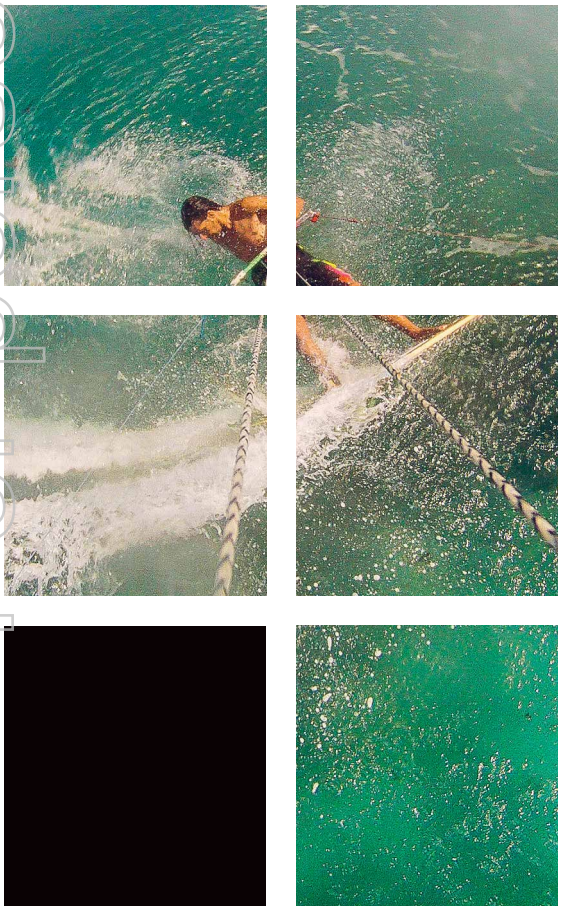
Industry overview

3



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3. Industry overview

3.1 Introduction

Dick Smith operates in the consumer electronics retail sector in Australia and New Zealand, which is estimated to be an $11 billion to $12 billion market[1]. This sector involves the retail of consumer electronics products and related items including:

- computers, including desktop computers, ultrabooks, laptops, notebooks, e-readers, tablets and other portable computers, and peripherals, including monitors, printers, inks and scanners;
- home video, including televisions (e.g. plasma and LED-LCD), visual components (e.g. DVD, Blu-ray and media players and HD recorders), and audio products (e.g. hi-fi and home theatre, speakers and docks);
- mobile phones, including mobile handsets and telephone service agreements (both pre-paid and post-paid);
- portable entertainment devices, including portable audio and digital radios, MP3 players and headphones;
- imaging devices, including digital cameras (e.g. compact, SLR and video), gaming (e.g. consoles and games), movies (e.g. DVD and Blu-ray) plus related accessories;
- security device products, including surveillance cameras, smoke alarms, travel security, and baby monitors; and
- related accessories, including adapters, bags, batteries, cables, cases, memory cards and travel accessories, as well as in-store services, product installation, warranties and insurance.

Dick Smith's range covers most of these product categories, with an emphasis on office (e.g. computers) and mobility products (e.g. mobile phones) and associated accessories, as well as entertainment (e.g. televisions) and associated accessories. The Directors consider the current product focus attractive in terms of growth and margin. Dick Smith's product and brand range is discussed in more detail in Section 4.

3.2 Competitive dynamics in the consumer electronics sector

In Australia and New Zealand, consumer electronics products are sold through a number of different retail formats. These include:

- specialty consumer electronics retailers (with physical stores and online channels), such as Dick Smith, JB Hi-Fi, Harvey Norman, The Good Guys, Noel Leeming and other independent consumer electronics retailers;
- department stores, such as Myer and David Jones;
- discount department stores, such as Big W, Kmart, Target and The Warehouse Group; and
- online pure-play retailers, such as Appliances Online, Amazon, eBay and Kogan.

Dick Smith is one of the largest consumer electronics and appliance specialist retailers in Australia and New Zealand by market share, with others including JB Hi-Fi and Harvey Norman. Management estimates that Dick Smith has a 10% to 11% market share of the Australia and New Zealand consumer electronics sector[1].

1 Source: Management analysis based on GfK panelmarket data for FY2013. Includes GST/VAT. Excludes Major and Small Appliances Sectors. All market share information, unless otherwise specified, is based on GfK retail panelmarket data on selected categories up to September 2013.

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3. Industry overview

3.2.1.1 Figure: Comparison of Dick Smith with core competitors[1]

	Dick Smith	JB Hi-Fi	Harvey Norman
Core product focus	■ Office ■ Mobility ■ Entertainment	■ Entertainment ■ Office ■ CDs, DVDs, video games and other software ■ Appliances	■ Office ■ Entertainment ■ Appliances ■ Furniture and bedding
Australia and New Zealand store network	■ Total: 359 ■ Australia: 298 ■ New Zealand: 61	■ Total: 177 ■ Australia: 164 ■ New Zealand: 13	■ Total: 239 ■ Australia: 206 (franchised) ■ New Zealand: 33 (owned)
Store banners	■ Dick Smith: 328 ■ David Jones Electronics Powered by Dick Smith: 30 ■ Move: 1	■ JB Hi-Fi: 168 ■ JB Hi-Fi Home: 8 ■ Clive Anthonys: 1	■ Harvey Norman: 210 ■ Domayne: 17 ■ Joyce Mayne: 12
Omni-channel platforms	■ Stores ■ Online transactional websites ■ Mobile transactional websites ■ Mobile transactional apps (full online product range) ■ Click-and-collect ■ In-store online portals	■ Stores ■ Online transactional websites ■ Mobile transactional websites ■ Mobile apps ■ Click-and-collect	■ Stores ■ Online transactional websites ■ Mobile transactional websites ■ Mobile photo apps ■ Click-and-collect

Dick Smith's business model is differentiated from that of JB Hi-Fi and Harvey Norman. Dick Smith has a product range that is focused on the office and mobility categories and associated accessories, as well as entertainment and associated accessories, with a limited software and appliances product offering and no furniture or bedding products. Dick Smith also has the largest consumer electronics store network across Australia and New Zealand and management believes Dick Smith stores are typically smaller than those of JB Hi-Fi and Harvey Norman. In addition, Dick Smith operates a number of different consumer electronics store banners, to target a wide customer demographic, and has a larger number of omni-channel platforms.

In New Zealand, The Warehouse Group is a key competitor, operating 92 The Warehouse stores and 78 Noel Leeming stores. In December 2012, The Warehouse Group acquired Noel Leeming, and subsequently increased its focus on computers and other consumer electronics products. Combined with an improvement in Noel Leeming sales, the New Zealand market is experiencing heightened competition.

1 Dick Smith store numbers as at 15 October 2013; JB Hi-Fi and Harvey Norman information based on latest annual reports, public company disclosures and company websites as at 15 October 2013.

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3. Industry overview

3.3 Historical growth and key trends in the consumer electronics sector

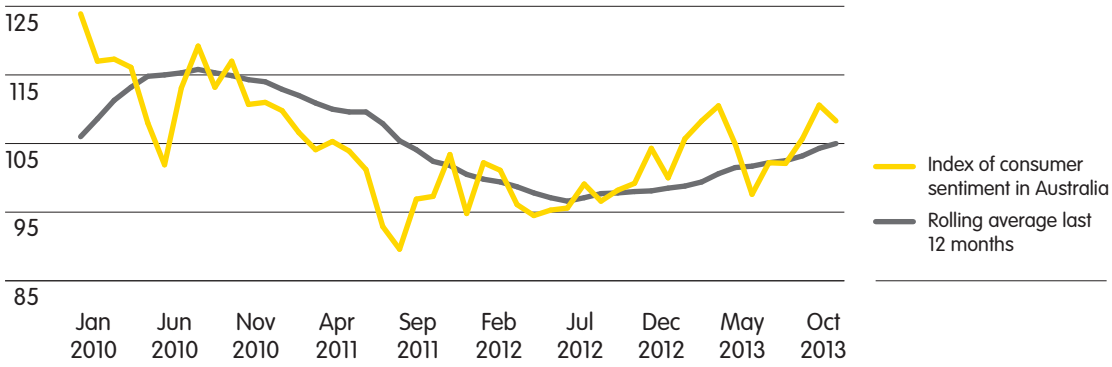
The consumer electronics sector in Australia and New Zealand has experienced volume growth over the last three years; however, it has also experienced price deflation in several categories, which has led to overall market value contraction. Management believes the key reasons for this value decline include lower costs of manufacturing consumer electronics products, the sustained strength of the Australian dollar over those years, a greater level of discounting activity, and low consumer sentiment and reduced discretionary spending as a result of the global and domestic economic environment. However, growth rates have varied by category, with certain key categories, such as mobile phones and tablets, experiencing strong value and volume growth.

Key trends which have impacted both the size and the structure of the consumer electronics sector in Australia and New Zealand are detailed below.

3.3.1 Economic environment

Consumer electronics is largely considered to consist of discretionary spend products and therefore, the consumer electronics retail market is influenced by external factors such as consumer sentiment, household disposable income, savings rate, interest rates, exchange rates and inflation. Global and domestic economic uncertainty coupled with a higher cost of living has resulted in consumers reducing spending on discretionary items over recent years. However, consumer sentiment in Australia has generally been increasing, and in September 2013 was at its highest level since December 2010, up 23% from the low point in August 2011[1].

3.3.1.1 Figure: Index of consumer sentiment in Australia[1]



1 Source: Westpac Melbourne Institute Index of Consumer Sentiment for Australia.

Management believes that this increased consumer sentiment has been driven by a more positive global and domestic economic outlook and historically low interest rates in Australia and New Zealand, and anticipates this will gradually impact retailers.

3.3.2 Increased market consolidation

The consolidated market share of the top five consumer electronics and appliance specialist retailers in Australia and New Zealand has continued to grow[2]. Management believes this reflects the benefits of their store network size, convenient locations, pricing, ability to attract leading brands, market reach and brand awareness.

2 Source: Management estimate.

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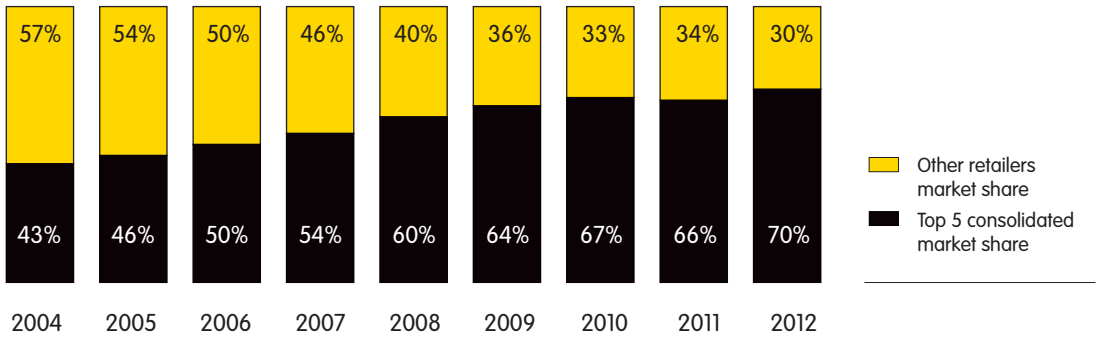
3.3.2.1 Figure: Australia and New Zealand consumer electronics and appliance specialist retailers market share[1]

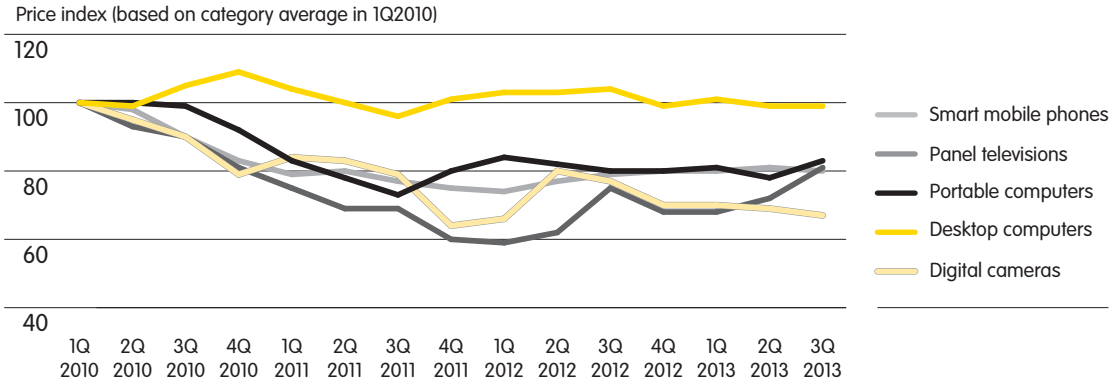


1 Source: Management estimate.

3.3.3 Deflationary price pressures

While market volumes have increased over the last three years, average retail prices of consumer electronics products have experienced a period of price deflation. Management believes this price deflation has primarily been caused by a reduction in the costs to manufacture consumer electronics products, the strength of the Australian dollar and discounting. The sustained strength of the Australian dollar over the period, particularly in relation to the US dollar, has allowed retailers and suppliers to fund an increased level of discounting and price reductions. More recently, this price deflation has moderated, and in some categories there has been modest price inflation. Management believes this has been driven by new product innovation, a stabilisation of the Australian dollar and a reduction in excessive discounting.

3.3.3.1 Figure: Price index by category (based on category average in 1Q2010)[2]



2 Source: GfK panelmarket data to September 2013.

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3.3.4 Technological innovation

Technological innovation is a key driver of the performance of the consumer electronics market via the creation of new products and categories, and through driving shorter product replacement cycles. In recent years, there has been a relatively low level of new product innovation within the industry which has contributed to lower relative sales growth. Management believes that recent technological advances and upcoming launches of new product innovations, such as mobile phones and tablets, curved and ultra-high definition televisions, next generation game consoles, smart watches, medical and healthy living devices, intelligent home products and 3D printers, as well as the related new accessories for these products, will be a key contributor to the future growth of the sector in the short to medium term. In addition, management believes that a large portion of this innovation will be focused on high-end products, which could lead to price inflation and market growth.

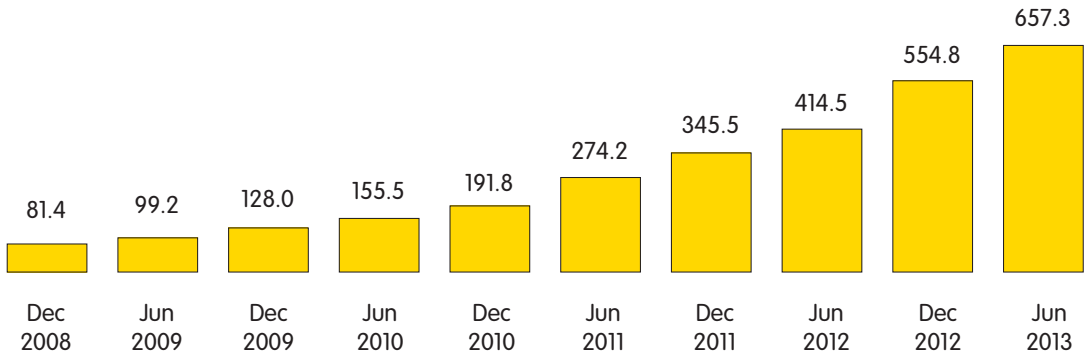
3.3.4.1 Figure: Examples of key consumer electronics new product launches in Australia

2008	2009	2010	2011	2012	2013
■ Smart TV ■ MacBook Air	■ Samsung Galaxy Smartphone ■ Beats by Dre headphones ■ Touchscreen computer ■ Amazon Kindle	■ Apple iPad ■ 3D TV ■ Samsung Galaxy Tablet		■ Apple iPad Mini	■ PlayStation 4 ■ Xbox One ■ Smart watch ■ Curved OLED TV

3.3.5 Increasing adoption of digital products

As a result of technological advancements in consumer electronics products and related sectors such as mobile networks, the internet, social media and digital entertainment, technology is playing an increasingly important role in the lives of the average consumer in Australia and New Zealand. Consumers are spending an increasing amount of time using consumer electronics devices for communications and consuming digital media.

3.3.5.1 Figure: Internet activity in Australia – total volume of data downloaded (petabytes)[1]



1 Source: Australian Bureau of Statistics data.

In addition, while technological advancements have led to some product convergence, it has also broadened the number of technological products a consumer can own, and the range of products that can be sold by traditional consumer electronics retailers. Recent product innovations now being offered by consumer electronics retailers include smart watches and medical devices for use at home. Management believes that these consumer usage trends will continue to have a favourable impact on the sector in coming years.

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3.3.6 Online and omni-channel competition

There are a number of channels available for retailers to complement their physical store networks, in particular websites, mobile sites, and mobile apps. Most major consumer electronics retailers in Australia and New Zealand have established fully transactional websites. Other international retailers also operate online sites which are available to Australian and New Zealand consumers, and several pure-play online retailers have also emerged. The ease and convenience of shopping online or via a mobile device, coupled with the proliferation of online retailers, have increased the popularity of online shopping in recent years, and as a result, the penetration of online retailing has increased.

Management believes that retailers with an existing physical store network and warehouses, such as Dick Smith, have a distinct advantage over pure-play online operators because:

- customers can see, touch and try consumer electronics products, and get real-time comparison advice on products, which is particularly important for more expensive items or new product innovations;
- customers can choose to click-and-collect from stores, allowing faster access to the product and the ability for the customer to check the product in-store and change it if necessary;
- stores allow faster and cheaper customer fulfilment through shipping direct from store;
- store networks and warehouses permit a larger stockholding, which improves the online conversion rate;
- stores provide more convenient warranty and post-sales service options; and
- large retailers with an established, physical store network typically offer a wider range of the leading brands than smaller, pure-play online retailers have access to.

In addition, management believes the consumer electronics sector has some protection from a significant increase in the level of penetration of international websites due to differences in electronic sockets, product voltage, operating system compatibility and warranty terms and conditions across different countries.

3.3.7 Supplier vertical integration

Some global consumer electronics brands, in particular Apple and Samsung, have established a small number of their own retail stores in Australia. While this may have led to increased competition in the industry, management believes this also generates customer excitement for consumer electronics products. Multi-brand retailers, such as Dick Smith, offer a different customer proposition by allowing customers to try and compare products across multiple leading brands, including Apple and Samsung.

3.4 Outlook for the consumer electronics sector

Management believes that many of the trends driving the decline in the Australia and New Zealand consumer electronics market in recent years have ceased or diminished, driving a more positive outlook for the sector in the short to medium term. Reasons for this include:

- improvement in retail conditions: continued improvement in retail conditions caused by increasing consumer sentiment and discretionary spending, the perception of political stability, and historically low interest rates in Australia and New Zealand;
- price stability: continued stabilisation of average consumer electronics product prices reflecting new product innovation, a reduction in excessive discounting and a decline in the Australian dollar exchange rate, with potential for average price increases in certain categories; and
- new product development: upcoming launches of new products are expected to generate foot traffic and demand.

3. Industry overview

In addition, management believes that several ongoing consumer trends create a favourable longer term outlook for consumer electronics retailers:

- mobility and connectivity: continued growth in consumer demand for mobility products such as portable computers, mobile phones and tablets;
- services growth: increasing demand for post-sales services such as installation, technical support and warranties;
- accessorising: increased usage of fashion accessories to personalise consumer electronics products; and
- omni-channel: further growth of online and other mobile channels such as click-and-collect and mobile apps.

Management also believes that growth rates of certain categories will continue to be more favourable than those of others, particularly mobility products, and that Dick Smith's product mix is positively skewed towards these attractive categories.

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Company overview

4

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4. Company overview

4.1 What is Dick Smith?

4.1.1 Overview

Dick Smith is a leading retailer of consumer electronics products in Australia and New Zealand. With 359 stores, pro forma revenue of $1.28 billion in FY2013 and approximately 3,700 employees, Dick Smith is the largest consumer electronics retailer in Australia and New Zealand by total number of stores[1] and is one of the largest by total retail sales value[2].

Dick Smith is an iconic, trusted and well-known brand[3], reflecting its 45 year history as a consumer electronics retailer. It provides a wide range of consumer electronics products at competitive prices combined with advice from knowledgeable staff, and has developed a large customer base. Dick Smith aims to be the leading consumer electronics retailer in Australia and New Zealand and to be perceived by customers as having competitive prices, compelling promotions, a large and convenient store network, a broad selection of products and brands, and knowledgeable, service-focused staff.

Dick Smith's category focus is on office and mobility products and related accessories, which together accounted for 68% of FY2013 pro forma revenue. Dick Smith also has a competitive offering in entertainment products and accessories. Within these categories, Dick Smith stocks over 280 brands as well as its own Dick Smith private label brand. Dick Smith developed and launched its co-branded credit card in July 2013, with a 12 months interest free offer to support high price point in-store sales. A gift card was launched in May 2013.

Dick Smith operates three physical store banners, allowing it to target different consumer segments: Dick Smith, David Jones Electronics Powered by Dick Smith and the new Move store concept. Dick Smith complements its large physical store network with an omni-channel platform consisting of websites, mobile sites, mobile apps and in-store online portals. Dick Smith leverages the largest consumer electronics store network in Australia and New Zealand by offering click-and-collect from store and has commenced delivering direct from store to customer to provide faster and cheaper customer delivery.

In addition, Dick Smith provides a range of support, troubleshooting and installation services from all stores, and has a Commercial division which sells electronics products to businesses and schools.

4.1.2 Brief company history

Dick Smith was founded in 1968 by Australian entrepreneur Richard 'Dick' Smith AO[4], starting as a single store car radio installation business in the Sydney suburb of Artarmon. In 1981, Woolworths acquired a 60% stake in Dick Smith, at which time there were more than 20 stores in Australia. In 1981, Dick Smith also opened its first store in New Zealand. In 1983, Woolworths acquired the 40% of Dick Smith that it did not already own, taking its ownership of Dick Smith to 100%. During Woolworths' ownership, Dick Smith expanded its product range and store network to become a leading consumer electronics retailer in Australia and New Zealand.

In late 2011, Woolworths commenced a strategic review of the Dick Smith business, completing its review in early 2012. It concluded that the Dick Smith business was not core to Woolworths given Dick Smith's size and business model relative to Woolworths' broader retail portfolio. As a result, Woolworths decided to divest Dick Smith to a new owner who could better realise the company's potential. Prior to the Acquisition, Woolworths closed 73 stores and assisted sales generation through additional marketing support.

On 26 November 2012, Dick Smith was acquired by Anchorage and new Managing Director and CEO, Nick Abboud[5]. Refer to Section 10.6.2 for details of the key terms of the Acquisition. Anchorage is an Australian-based, turnaround-focused private equity firm with approximately $450 million in funds under management. Anchorage's principals have been investing in turnarounds in Australia, New Zealand and Asia for more than 25 years.

Since the Acquisition, Nick Abboud and his new senior management team have substantially transformed Dick Smith, revitalising all areas of the business and repositioning Dick Smith for ongoing future growth. By June 2013, the major transformation initiatives had been implemented and Dick Smith centred its focus on the next stage of its growth agenda. Anchorage is a turnaround-focused investor and therefore, upon successful implementation of the major transformation initiatives, began to consider alternatives to reduce its investment and create an ownership structure that would better enable Dick Smith to achieve its growth objectives.

1 Source: Dick Smith store numbers as at 15 October 2013; competitors' store numbers as per latest annual reports, public disclosures and company websites (as at 15 October 2013). Note: Includes all banner formats.

2 Source: Management estimate.

3 Source: Reader's Digest: Most Trusted Brands 2013: Iconic Brands category.

4 Dick Smith has no ongoing relationship with Richard Smith AO, or Dick Smith Foods Pty Limited.

5 On 26 November 2012, Dick Smith was acquired by Dick Smith Sub, an entity then 98% owned by Anchorage and 2% owned by LMA Investments, an entity controlled by Nick Abboud.

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4.1.3 Dick Smith's transformation strategy

At the time of the Acquisition, Dick Smith was experiencing declining profitability. Following the Acquisition, the Dick Smith management team, led by Nick Abboud, rapidly implemented a comprehensive transformation program, positioning the business for sustainable growth. The program covered all areas of the business and addressed revenues, gross profits, costs and the balance sheet, as well as customer experience and internal culture. New management talent was also added to the business to complement the existing management team, to bring additional retail and transformation expertise and to provide management the capacity to progress multiple transformation and growth initiatives in parallel. Nick Abboud and the management team, with over 200 years of cumulative retail experience, also drove an internal cultural shift towards a customer-centric focus, a bias to action and accountability for results. In addition, the transformation program incorporated deep engagement of:

- customers, through a detailed program of customer surveys, engagement forums, and brand positioning studies;
- suppliers, through multiple presentations designed to inform suppliers of the new direction of Dick Smith, and Managing Director and CEO engagement with key suppliers; and
- employees, through new training programs, frequent communication updates and engagement forums to allow feedback and discussion.

An overview of the major initiatives under the transformation program, including the benefits already delivered and the benefits that the Company believes are still to be realised, is set out below.

4.1.3.1 Figure: Dick Smith's transformation strategy

	Examples of initiatives	Benefits realised	Benefits still to be realised
Stores and staff	■ Rolled out new store key performance indicator ("KPI") dashboards to all stores ■ Implemented new staff incentive model linked to KPI dashboards ■ Implemented new staff rostering processes and staffing policies ■ Implemented "Serve Forward" staff training program for in-store staff focused on customer service and empathy ■ Improved in-store markdown policies ■ Developed strong alliances with major landlords ■ Improved recruiting profiles and policies	■ Improved store labour efficiency and profitability ■ Improved in-store customer experience ■ Improved gross margins through better promotion management	■ Opening of additional new stores (discussed further in Section 4.4) under a more profitable model ■ Additional labour efficiencies from ongoing rostering refinements ■ Ongoing staff productivity improvements

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4. Company overview

	Examples of initiatives	Benefits realised	Benefits still to be realised
Suppliers and buying	■ Developed strategic relationships with key suppliers ■ Renegotiated a number of supplier agreements (e.g. pricing and terms) ■ Revamped range and mix of brands and products, and increased focus on mobility and private label ■ Developed new pricing and promotional practices in collaboration with suppliers ■ Opened new Hong Kong sourcing office and re-tendering of sourcing costs ■ Improved buyer disciplines and accountability ■ Improved collaboration between buying and operations	■ Store-in-store relationships with Apple and Samsung ■ Mutually beneficial supplier agreements on commercially competitive terms ■ Improved gross margins from pricing and product mix ■ Clarity on range and price strategies ■ Access to latest products and brands	■ Ongoing Apple and Samsung store-in-store roll out ■ Continued range improvements through strengthening supplier relationships ■ Further sales uplift from dynamic pricing and mix ■ Improvements from ongoing supplier management and range reviews ■ Continued improvements to private label mix and profitability ■ Brand consolidation
Marketing	■ Developed new marketing program ■ Implemented 'Dick Live Daily Deals' ■ Renegotiated marketing supplier agreements ■ Conducted extensive customer research and engagement	■ Substantial increase in marketing volumes, efficiency and 'share of voice', including greater frequency of catalogues and increased number of days of television commercials ■ Improved collaboration with suppliers	■ Ongoing improvements to marketing of promotions and supplier collaboration
Inventory manage-ment and supply chain	■ Undertook significant clearance of aged and obsolete stock ■ Improved stock management and ordering practices ■ Upgraded store replenishment system ■ Streamlined and right sized distribution network ■ Optimised freight movements including adding direct to store and direct to customer shipping ■ Optimised staffing to reflect new inventory levels	■ Significant reduction in aged and obsolete stock ■ Reduction in freight and inventory handling costs ■ Reduction in 'out of stocks'	■ Ongoing distribution centre optimisation ■ Improvements to product returns processes ■ Additional benefits from direct to store and direct to customer logistics

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	Examples of initiatives	Benefits realised	Benefits still to be realised
Omni-channel	■ Migrated website to new digital platform allowing greater flexibility, functionality, efficiency and customer experience	■ Improved visitation and sales through improved pricing, convenience, attachment and delivery functionality	■ Ongoing improvements to web platform and to functionality ■ Roll out of delivery from store fulfilment to cover all of Australia and New Zealand ■ Expansion of online product range beyond in-store range ■ New delivery options and pricing ■ Improved product ranging through in-store online portals
Other	■ Renegotiated all key contracts and procurement agreements ■ Addressed excess space issues	■ Sustained lower and more flexible cost base	■ Head office functional efficiencies ■ Ongoing store relocation/ upgrade opportunities

In Australia, these initiatives have already delivered significant improvements to Dick Smith's financial performance (detailed further in Section 5). The Directors believe that the significant increase in the underlying profitability of Dick Smith and the sustainability of the increase have been evidenced in the 1Q2014 results. In Australia, Dick Smith is now positioned for growth and has already commenced implementation of its growth plan (described in more detail in Section 4.4).

While these transformation and growth initiatives in Australia are well underway and are delivering significant benefits, the implementation in New Zealand commenced later, with many of the initiatives yet to deliver their full potential. At the time of the Acquisition, New Zealand operated functional reporting lines, where, for example, the head of buying reported into the head of buying in Australia. Following the Acquisition, the decision was made to hire a Director of New Zealand to bring increased focus to the New Zealand business given the different competitor, consumer and supplier dynamics in that market, delaying the implementation of some of the transformation initiatives. FY2014 is therefore anticipated to be a transition year for the New Zealand operations, reflecting the timing of the implementation of Dick Smith's transformation program. Management forecasts a significant improvement in New Zealand EBITDA in FY2014, despite a decline in like for like sales. The key transformation initiatives being implemented in FY2014, which are expected to drive the improvement in gross margin and the cost of doing business ("CODB"), include a new pricing structure, improved vendor terms, store productivity improvements and marketing methodology.

In addition to these transformation initiatives, Dick Smith's management undertook a wide range of programs to transition Dick Smith away from Woolworths' shared services and policies. The majority of the transition services are now complete, with the remaining minor transitions expected to complete within FY2014. These include Woolworths' stocktake resource, alarm monitoring, pallet services, time and attendance, and data management services. Dick Smith continues to use Woolworth's switch services, covering payments and gift cards.

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4. Company overview

4.2 What is Dick Smith's business model?

4.2.1 Product and brand portfolio

Dick Smith classifies its product range into four categories, being office; mobility; entertainment; and other products and services. Dick Smith is primarily focused on office and mobility and related accessories, but also has a broad entertainment offer. Dick Smith offers approximately 6,800 SKUs from a wide selection of the leading consumer electronics brands, as well as a private label Dick Smith brand.

4.2.1.1 Figure: Dick Smith's product portfolio

Category	FY2013 pro forma revenue	Key products	Select brands		
Office	■ $691 million ■ 54% of total	■ Desktop computers ■ Ultrabooks/ laptops/ notebooks ■ Monitors ■ Tablets ■ e-readers ■ Security products ■ Related accessories	■ Acer ■ Apple ■ Asus ■ Belkin ■ Canon	■ Hewlett Packard ■ Logitech ■ Microsoft	■ Samsung ■ Sony ■ Toshiba ■ Uniden
Mobility	■ $175 million ■ 14% of total	■ Mobile phone handsets ■ Pre- and post-paid mobile phone plans ■ Satellite networks ■ Related accessories	■ Amazon ■ Apple ■ Garmin ■ Huawei ■ LG	■ Nokia ■ Optus ■ Pivotel ■ Samsung ■ Sony	■ Telstra ■ Think Mobile ■ TomTom ■ Vodafone ■ ZAGG
Entertainment	■ $383 million ■ 30% of total	■ Televisions ■ Visual components ■ Audio products ■ Digital cameras ■ Gaming and movies ■ Related accessories	■ Bang & Olufsen ■ Beats by Dre ■ Bose ■ Bowers & Wilkins ■ Canon ■ Dick Smith ■ Frends ■ GoPro	■ JBL ■ JVC ■ LG ■ Logitech ■ Microsoft ■ Molami ■ Nikon ■ Nude Audio ■ Olympus ■ Panasonic	■ Parrott ■ Philips ■ Pioneer ■ Samsung ■ Sennheiser ■ SOL REPUBLIC ■ Sony ■ Urban Ears ■ Yamaha
Other products and services	■ $32 million ■ 2% of total	■ Extended warranty ■ Post-sale services ■ Insurance ■ Credit/credit cards ■ Gift cards ■ Small appliances	■ n/a		

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4.2.1.2 Office

The office category includes desktop computers, ultrabooks, laptops, notebooks, monitors, tablets, e-readers, networking and wireless solutions, software, corded and cordless telephones, inkjet and laser printers, ink cartridges and toners, security products, storage devices and related accessories (e.g. adaptors, cables, computer peripherals etc.). Dick Smith generated pro forma revenue of $691 million from this category in FY2013.

Dick Smith is the largest consumer electronics retailer of Amazon Kindle products in Australia and New Zealand and also stocks leading brands such as Samsung, Sony, Hewlett Packard, Toshiba, Asus and Acer. In September 2013, Dick Smith was awarded the Acer retailer of the year. Dick Smith has a key strategic relationship with Apple, selling its computers, iPads and iPods, which includes a store-in-store arrangement. In addition, Dick Smith has a substantial market share of the notebook and tablet product sub-categories, two of the largest product sub-categories in the office category.

4.2.1.3 Mobility

The mobility category includes the sale of mobile phone handsets as well as network access through pre-paid and (from September 2013) post-paid contracts, and accessories (e.g. covers, SIM cards, calling cards, travel accessories etc.). Dick Smith generated pro forma revenue of $175 million from this category in FY2013.

Dick Smith is a leading retailer of pre-paid and outright mobile phone handsets in Australia and New Zealand. Management estimates Dick Smith sells over a quarter of Australian pre-paid and outright mobile phone handsets and over a third of outright mobile phone handsets. In January 2013, Dick Smith began selling Apple iPhone handsets outright and is a leading reseller of pre-paid and outright iPhone handset sales in Australia. In October 2013, Dick Smith increased the number of stores selling the iPhone from 75 to 146. Dick Smith is also a leading retailer of Samsung mobile phones, which are available in all Dick Smith stores.

Dick Smith is currently the only mass market retailer in Australia to offer handsets with access to pre-paid and post-paid mobile plans using the Telstra, Optus and Vodafone mobile networks, as well as the Thuraya satellite network. Post-paid plans are currently offered through resellers with the intention to move to direct carrier agreements in FY2014. In New Zealand, Dick Smith offers pre-paid network access to the Vodafone, 2degrees and Telecom (NZ) networks and also post-paid plans with 2degrees. Dick Smith complements this network offering with a leading range of handset and accessory brands, which can be bought with or without a contract, strongly positioning the Company to capitalise on the growth in the mobile phone category.

Dick Smith also sells a range of mobile travel products which complement the mobility product portfolio such as overseas data roaming products, satellite phones and device insurance.

4.2.1.4 Entertainment

The entertainment category includes televisions (e.g. plasma and LED-LCD), visual components (e.g. DVD, Blu-ray and media players and HD recorders), audio products (e.g. hi-fi and home theatre, speakers and docks, portable audio and digital radios, MP3 and headphones), digital cameras (e.g. compact, SLR and video), gaming (primarily consoles) and related accessories (e.g. HDMI cables, AV cables, antennas, memory cards, bags etc.). Dick Smith generated pro forma revenue of $383 million from this category in FY2013.

Dick Smith's entertainment range includes the latest technology products from the leading international brands including Samsung, Sony, Microsoft, Panasonic, LG, Philips, Pioneer, Yamaha, Logitech, Sennheiser, Canon, Nikon and Olympus. In the past year, Dick Smith's new management team has added key international brands including Beats by Dre, GoPro, Bose, Bang & Olufsen, Bowers & Wilkins, JBL, JVC, SOL REPUBLIC, Urban Ears, Molami, Frends, Parrott and Nude Audio.

Televisions are the largest product sub-category within the entertainment category. Dick Smith holds key partnerships with the four leading brands, being Samsung, LG, Sony and Panasonic. Dick Smith is one of the largest retailers of private label small screen LED-LCD televisions, sold under the Dick Smith brand. In October 2013, Dick Smith became the exclusive retailer of JVC televisions in Australia and New Zealand. The launch of PlayStation 4 and Xbox One gaming consoles in November 2013 are key innovations coming to market in the near future which should underpin gaming growth in Dick Smith's store network.

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4. Company overview

4.2.1.5 Other products and services

Dick Smith provides post-sale services such as installation, training and troubleshooting, which are provided both in-store and in-home. Dick Smith also generates income from warranties, credit cards and mobile phone insurance, among other selected electronics related products offered from time to time. Dick Smith also launched its own range of gift cards in May 2013. Dick Smith generated pro forma revenue from the sale of these products and services of $32 million in FY2013.

4.2.1.6 Dick Smith private label

Dick Smith has offered private label products under the Dick Smith brand since the company was founded in 1968. In FY2013, private label products accounted for over 10% of pro forma revenue and management has plans to grow this contribution. Dick Smith's private label product offering covers each of the Company's product categories, with a greater penetration in visual products (televisions) and accessories (e.g. cables, plugs, adaptors, batteries). Private label packaging was recently re-designed in line with the Company's brand renewal program to a contemporary style. Associated with the rebranding, Dick Smith has retendered a range of private label contracts, with new product and costing anticipated to be available in late 2013.

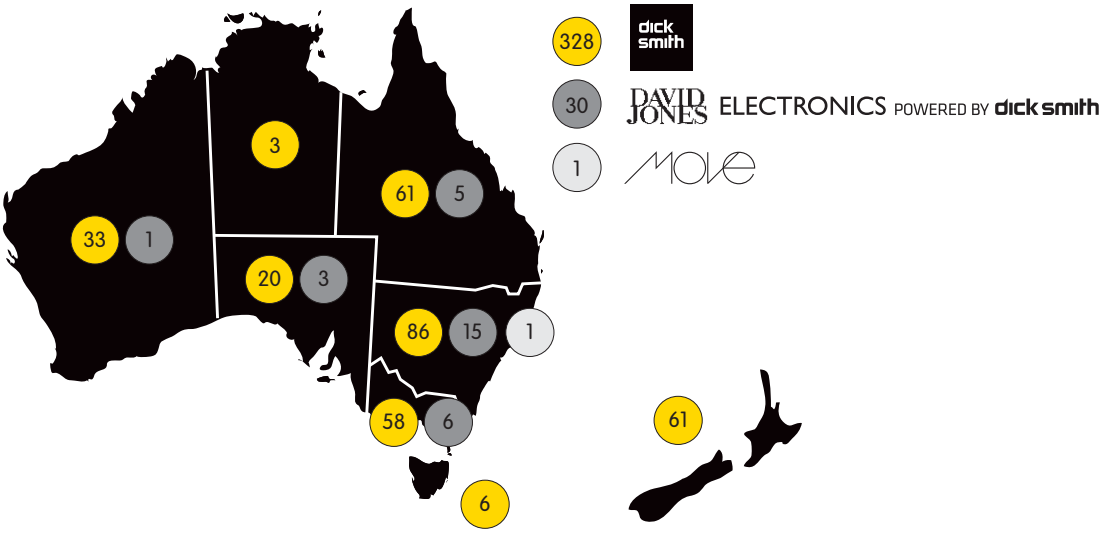
Dick Smith has a dedicated procurement and quality assurance team based in both Hong Kong and Sydney responsible for establishing and maintaining manufacturing partnerships, and sourcing the latest products. The product development and buying teams regularly attend international trade shows to ensure Dick Smith is abreast of new product developments and category trends.

4.2.2 Stores

4.2.2.1 Store network

Dick Smith operated 359 physical stores across Australia and New Zealand as at 15 October 2013, providing it with the largest number of consumer electronics stores in Australia and New Zealand. Dick Smith's physical store network in Australia consists of 267 Dick Smith branded stores, 30 David Jones Electronics Powered by Dick Smith stores and one Move store concept, and in New Zealand consists of 61 Dick Smith branded stores. This network provides convenience for its customers, and enables a comprehensive omni-channel offer by providing the most locations for click-and-collect, and for shipping from store to reduce customer delivery time and cost.

4.2.2.2 Figure: Geographic distribution of Dick Smith's stores[1]



1 Source: Dick Smith store numbers as at 15 October 2013.

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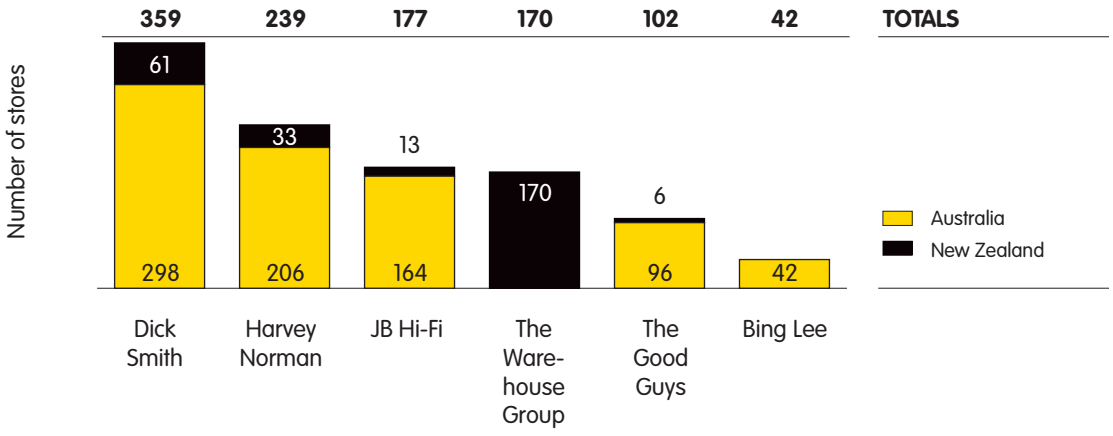
4. Company overview

4.2.2.3 Figure: Dick Smith Australia and New Zealand store network versus that of key competitors[1]



1 Source: Dick Smith store numbers as at 15 October 2013; competitors' store numbers as per latest annual reports, public disclosures and company websites (as at 15 October 2013). Note: Includes all banner formats.

4.2.2.4 Dick Smith branded stores

Dick Smith's store network consists of 328 Dick Smith branded stores, of which 267 are in Australia and 61 are in New Zealand. Dick Smith's property team identifies opportunities to increase its store network in key growth locations through detailed demographic analysis and market intelligence. Dick Smith has also developed strong alliances with major landlord groups in order to secure prime locations. The current store network has a total floor space of approximately 160,000 square metres with the majority of stores located in sub-regional to super regional shopping centres and the remainder free standing. Approximately 78% of the Dick Smith branded store network (254 of the 328 stores) have either been newly opened or refurbished in the last five years.

Dick Smith branded stores stock a broad product and brand range with a key focus on mobility and computing products and accessories, and with a competitive entertainment portfolio. Products are offered across three price and range tiers, with a low priced entry level offer, medium price and premium price point products.

Dick Smith branded stores vary in size; however, the average store size is approximately 500 square metres and 74% are 500 square metres or less.

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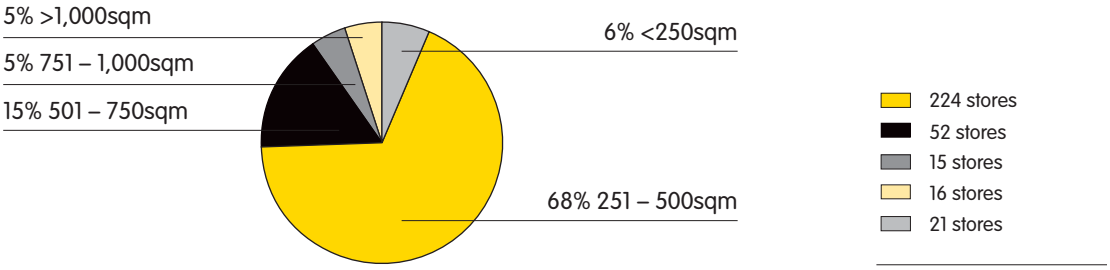
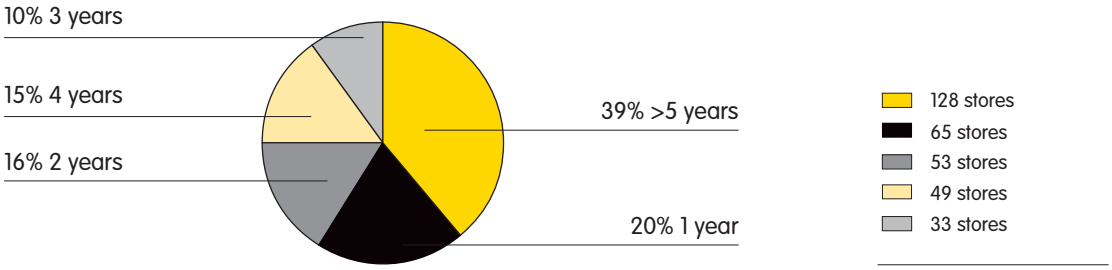
4. Company overview

4.2.2.5 Figure: Dick Smith branded store sizes[1]



Rent increases for almost half of the Dick Smith branded stores are based on annual CPI related increases while a large proportion of the rest are subject to fixed rate increases for the term of the lease. New lease terms are typically five years and 20% of Dick Smith branded store leases are up for renewal within the next year. Dick Smith has an option to renew on a number of its lease contracts.

4.2.2.6 Figure: Dick Smith branded store lease renewal profile[1]



Dick Smith has strategic partnerships with a number of its key suppliers, including Apple, Samsung and Sony. A feature of these partnerships is a dedicated selling space allocated by Dick Smith within its stores for the exclusive sale of that supplier's products. These include store-in-store environments, with custom built tables and wall features, for which suppliers often contribute to certain operating costs. Apple has dedicated selling space in 171 stores, which includes a number of store-in-store environments, Samsung has 32 store-in-store environments (an exclusive arrangement in Australia), and Sony has two. Management plans to continue to roll out these store-in-store formats, including into David Jones Electronics Powered by Dick Smith stores.

1 Source: Dick Smith store numbers as at 15 October 2013.

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4. Company overview

4.2.2.7 David Jones Electronics Powered by Dick Smith stores

In August 2013, Dick Smith signed an exclusive retail brand management agreement with David Jones under which Dick Smith operates the consumer electronics division of 30 David Jones stores as well as David Jones' consumer electronics online offering, under the brand 'Electronics Powered by Dick Smith'. Under the agreement, Dick Smith can also operate the consumer electronics division of any new stores opened by David Jones.

The product range sold by David Jones Electronics Powered by Dick Smith is focused on mid to premium price aspirational products and does not include David Jones' white goods and small appliances range. Rebranding is complete following the agreement taking effect 1 October 2013, and re-ranging to add Dick Smith's brands is underway. The conversion of the online platform is expected to be completed in December 2013. The average store space of David Jones' consumer electronics departments is approximately 300 square metres.

The retail brand management agreement has a number of benefits for Dick Smith, in particular sales and margin growth by complementing David Jones' existing product range with Dick Smith's range of brands and accessories, as well as the addition of several aspirational and innovative products. It also allows Dick Smith the ability to implement its customer-focused, staff training principles in the stores and provides access to an affluent demographic.

Under the agreement, Dick Smith will incur all staff expenses and stock purchase costs related to the operation of David Jones Electronics Powered by Dick Smith. Dick Smith pays an occupancy charge based on a percentage of sales (with a minimum amount payable annually) and makes a contribution to marketing costs. Dick Smith also acquired all of David Jones' existing consumer electronics stock with an appropriate discount for age of the stock (refer to Section 10.6.3 for further details of the agreement).

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4.2.2.8 New Move stores

On 5 October 2013, Dick Smith opened its first new Move store concept in Westfield Bondi Junction, Sydney. The Move concept is designed to capitalise on the trend towards mobility products and accessorising of these products. The product range is focused on mobility products such as mobile phone handsets and tablets, and related accessories, particularly fashion accessories. The store also stocks some exclusive brands and some brands not currently offered in Dick Smith branded stores.

The Move store concept is aimed at a younger and more affluent customer demographic interested in stylish and wearable technology, with the store design featuring bright colours and fashionable product displays. The Move stores are intended to be smaller than the average Dick Smith store at around 150 to 200 square metres, with the Westfield Bondi Junction Move store being approximately 180 square metres.

4.2.3 Omni-channel platform

Dick Smith operates an omni-channel platform comprising the 359 physical stores, online shops, mobile shops, mobile apps, click-and-collect (which leverages Dick Smith's leading, extensive physical store network in providing convenient and cost effective customer collection capability) and an in-store online portal. Dick Smith's virtual platforms are designed to drive sales, increase foot traffic to stores, and improve brand awareness and positioning. The omni-channel offering provides customers with an integrated shopping experience focused on convenience, fulfilment and mobility.

4.2.3.1 Online

Dick Smith websites were launched in New Zealand (www.dicksmith.co.nz) in 1998 and in Australia (www.dicksmith.com.au) in 2000. The websites provide full transactional capability. The mobile version of the websites, which are compatible on most tablet and mobile phone handsets, were launched in late 2011 in Australia and mid 2013 in New Zealand. As at 15 October 2013, Dick Smith's Australian website offered approximately 3,500 products and the New Zealand website offered approximately 2,600 products. Dick Smith plans to increase the number of products available for purchase online substantially in 2014.

Dick Smith's websites received, on average, over 440,000 unique visits per week during the period from 30 March 2013 to 28 September 2013. Reflecting its strong online presence, Dick Smith has a database in excess of 270,000 customers. Its websites facilitate the sharing of products and product information with friends on social media platforms, including Facebook and Twitter. Online orders are currently fulfilled from five stores, with plans to expand fulfilment to approximately 40 stores by the end of 2013. Dick Smith's large store network in Australia and New Zealand provides many shipping points, which minimises customer delivery time and cost.

Dick Smith is expected to operate the David Jones Electronics Powered by Dick Smith online shop from December 2013 as part of its retail brand arrangement with David Jones and has also launched a Move website (www.movestore.com.au) following the opening of the new Move store concept in October.

4.2.3.2 Mobile apps

Dick Smith's mobile apps, available on the Apple iOS and Android operating systems, were launched in July 2013. The apps have multiple functionalities, enabling customers to search for products and product information, purchase products, scan to buy products in store or from printed catalogues and advertisements, and locate stores and directions to stores, share products with friends and view 'Dick Live Daily Deals' and other offers. Since launching in July, Dick Smith's mobile apps have been downloaded more than 7,000 times. Dick Smith is the only consumer electronics retailer in Australia and New Zealand with transactional app shops allowing customers to purchase a comprehensive range of consumer electronics products.

4.2.3.3 Click-and-collect

Dick Smith began operating a click-and-collect service in November 2010 in Australia and in May 2011 in New Zealand. Leveraging Dick Smith's large store network, the service allows customers to shop online at Dick Smith's websites and reserve products for collection at a nearby store at the customer's convenience. During the three months to September 2013, over a third of orders placed online were fulfilled using click-and-collect.

4.2.3.4 In-store online portal

An online portal available in stores is a recent innovation by Dick Smith, launched in early 2013, which allows customers to shop from a larger range of products than can be displayed in some of the stores. As at 15 October 2013, online portals were present in seven stores in Australia, and approximately 3,500 products could be ordered via the online portal. Dick Smith intends to expand the online range substantially in 2014. The Company also plans to increase the total number of stores with online portals to approximately 16 by December 2013, as well as to include online portals in every new store thereafter.

4.2.4 Other channels and products

4.2.4.1 Commercial sales

Dick Smith also sells electronics products and services to organisations such as businesses, insurance companies and schools in Australia and New Zealand through a dedicated sales team. Sales are skewed towards office products, although this channel also sells entertainment products (especially to pubs, hotels and building companies) and mobility products (to businesses).

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4.2.4.2 Services and installation

Dick Smith offers customers a wide range of services, including delivery and installation, warranty protection and 'Dick Smith Care'. All Dick Smith stores offer delivery and installation services, providing nationwide coverage. Extended warranty protection is also offered, in addition to the suppliers' warranty. Dick Smith also offers remote and at home troubleshooting capability covering computers purchased at Dick Smith and elsewhere, through 'Dick Smith Care'.

4.2.4.3 Financial services and gift cards

The Dick Smith credit card, available from July 2013, provides 12 months interest free finance (subject to terms and conditions). Dick Smith has commenced offering gift cards, which can be purchased as a gift or used by Dick Smith as a promotional offer.

4.2.5 Customers and marketing

4.2.5.1 Customers

Immediately following the Acquisition, Dick Smith undertook a significant program of customer engagement in order to better understand customers' perceptions of Dick Smith and its proposition relative to competitors. This program included surveys as well as online and in-person customer and employee engagement. Management continues to monitor and track customer perception and respond to results. Recent survey data shows that the benefits of Dick Smith's transformation are being recognised by customers, with improvement noticed in all key areas of Dick Smith's proposition: price, range, service, overall customer experience and trust of the brand. Dick Smith has a strong understanding of its customer segments, and the customer insights gained have driven action resulting in a number of key customer imperatives which are currently being implemented by the management team.

4.2.5.2 Pricing and promotional activity

Dick Smith has implemented a new pricing and promotional strategy in Australia and New Zealand, effective August 2013, with a particular focus on increasing profitability and improving customers' perceptions of Dick Smith's price competitiveness. Within Dick Smith stores, products are offered across a three tier pricing and ranging matrix, with low price entry level offer products, medium price point products and premium price point products. In conjunction with its suppliers, Dick Smith operates a rotating promotional strategy whereby individual brands are discounted at different times and at different discount rates. In addition, Dick Smith runs a daily deal promotional campaign, 'Dick Live Daily Deals', typically for individual products, which are discounted for one day or a select number of days. The offer is promoted on free-to-air television and social media and released to online customers the evening before going live in store the following day.

4.2.5.3 Advertising and marketing

Dick Smith advertises through a number of media including catalogues, newspapers, television, radio, websites and social media. Dick Smith has significantly increased its marketing frequency over the last 12 months with over six million catalogues now distributed on a weekly basis, up from every two to three weeks previously, and television and radio advertisements now broadcast daily including 'Dick Live Daily Deals' for the majority of the year. Despite the increase in marketing frequency, net marketing costs incurred by Dick Smith have reduced reflecting improved rates from media providers and increased collaboration with suppliers. Dick Smith continues to evolve its capability to cost-effectively target customers through a number of customer databases, including Dick Smith's own database and those owned by its strategic partners.

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4.2.6 Employees and corporate social responsibility

Dick Smith has approximately 3,700 employees, with over 3,100 in Australia and over 550 in New Zealand. Over 3,200 are store-based, with a further 70 providing logistics services. Reflecting the improvement in rostering and staffing productivity arising from the transformation program, approximately two-thirds of Dick Smith employees are part-time or casual. In New Zealand, the proportion of casual and part-time employees is significantly lower, consistent with labour market practices in New Zealand. In recognition of the contribution of Dick Smith's employees to the Company's transformation, Eligible Employees are entitled to participate in the Employee Award Offer, providing them with the opportunity to apply for 300 Shares each for no consideration. The Employee Award Offer is, in effect, being funded by Anchorage.

Dick Smith believes a strong community engagement is integral to its relationship with customers. The annual Variety NSW Dick Smith Bash is Australia's most successful charity motoring event. First organised by Dick Smith AO in 1985, the event raises funds for children's education and charities, particularly those associated with disadvantaged and special needs children. The 2013 Variety NSW Dick Smith Bash raised in excess of $1.85 million, with over $165 million raised since 1985. Ability First is an umbrella group representing the national interests of eight of Australia's leading disability service providers. Dick Smith's involvement includes the Dick Smith Walk with Me, a range of national disability walks held across Australia raising awareness that one in four Australians is impacted by disability and celebrating their achievements. Dick Smith also hosted Ability First's 2013 gala dinner, with additional support through in-store donations. Dick Smith also sponsors the Melbourne Stars Twenty/20 Big Bash cricket team.

4.2.7 Operations and other

4.2.7.1 Key suppliers and supply chain

Dick Smith sources its third party merchandise from over 260 suppliers globally, providing its customers with a broad, considered product range. The management team has worked with suppliers to provide an enhanced and more competitive offer to Dick Smith's customers, with terms and conditions now aligned with standard market practice, including price and marketing support.

The supply chain transformation undertaken by the management team has significantly improved logistic efficiencies. Following the closure of the Hoxton Park, New South Wales distribution centre in February 2013 and the Perth, Western Australia distribution centre in May 2013, Dick Smith's supply chain is now supported by distribution centres located in Chullora, New South Wales and Wiri, New Zealand. In aggregate, these facilities have over approximately 23,000 square metres of floor space with capacity for over 13,800 stock pallets and are capable of supporting Dick Smith's anticipated growth in the foreseeable future. In addition, Dick Smith's freight forwarding relationships allow direct delivery to major ports in Australia and New Zealand, improving logistics efficiency. Dick Smith's close working relationship with its freight providers allow it to utilise capital city hubs as bases to deliver to metropolitan and regional stores.

A number of Dick Smith's suppliers now deliver directly to store where mutual cost efficiencies exist. Dick Smith expects to continue to expand this model. Additionally, Dick Smith is trialling direct delivery from the supplier to the customer for selected large, high value products.

The significant improvement in inventory management is due to a more robust forecasting system which combines recent history and consumer demand data with flexibility to increase or decrease inventory levels depending on promotional status. This system allows continuous monitoring of, and adjustment to, inventory receipt levels, thereby minimising excess and unwanted inventories.

Dick Smith expects to introduce a range of other supply chain initiatives aimed at further enhancing existing efficiencies. Dick Smith is also extending the local fulfilment of online orders from the existing network of four Australian stores and one New Zealand store to approximately 40 stores by the end of 2013.

4.2.7.2 Information technology

Dick Smith's key IT systems include its supply chain systems, merchandise system, digital platforms, point of sales system and financial and payroll systems. All key systems are duplicated between Australia and New Zealand. Management believes Dick Smith's digital platforms, encompassing its online websites, mobile sites and mobiles apps in Australia and New Zealand, as well as its stock system which allows the Company to monitor live stock levels through the supply chain, provide an excellent platform to enable its omni-channel growth ambitions.

Dick Smith's point of sales systems have functionality to record real-time sales, gross profit and margin capture data, and have data analysis capability. This allows users, such as store managers and sales team members, to access real-time KPIs, and allow the updating of store and salesperson KPI dashboards on a daily basis.

4.2.7.3 Intellectual property

The Dick Smith brand name is integral to its business, originating from the founder's name. The Dick Smith brand name is registered as a trade mark in various forms presently used by the business, which includes the name and the logo, in both Australia and New Zealand.

Dick Smith has developed an extensive portfolio of trade marks, maintained and protected through their registration in its name, covering various private label products such as Tandy, Distinct, Distinct Plus, Digitor, Surge Interceptor and Surge Catcher.

Dick Smith has other brands which are used and are in the process of trade mark registration, including Electronics Powered by Dick Smith, Move and various private label brands.

4.3 What are the strengths of Dick Smith's business model?

4.3.1.1 Iconic brand with an attractive market positioning

Dick Smith is an iconic, trusted and well-known consumer brand[1], with a differentiated customer proposition based on its store network, product range, service and advice. Dick Smith has an attractive market position through operating the largest consumer electronics store network in Australia and New Zealand complemented by a comprehensive omni-channel offering.

Trusted, iconic brand: Dick Smith is an iconic brand, with stores renowned for highly knowledgeable staff, as well as convenient locations, competitive prices, and stocking the leading consumer electronics brands. Dick Smith's reputation for knowledgeable advice has been built throughout the company's 45 year history, leveraging its legacy as a store for technology enthusiasts. Management believes Dick Smith's range is skewed towards categories that modern consumers want, and that are attractive in terms of growth and margin.

Largest store network with three distinct banners: With 359 stores, Dick Smith operates the largest number of consumer electronics stores in Australia and New Zealand, providing an excellent platform for omni-channel growth. Since October 2013, Dick Smith has operated three distinct store banners: Dick Smith, David Jones Electronics Powered by Dick Smith and the new Move store concept. The multi-banner proposition has allowed Dick Smith to access a broader range of customers, including customers less represented in Dick Smith's core customer base. David Jones Electronics Powered by Dick Smith is oriented towards an affluent customer segment, while the Move concept is oriented towards a younger, affluent segment wanting mobility and fashion-oriented accessories.

Comprehensive omni-channel offer: Dick Smith's omni-channel offering complements its large store network with its award winning websites, mobile sites, mobile apps, and in-store online portals. These digital platforms leverage the large store network by offering the convenience of click-and-collect in all stores, and increasingly will offer delivery from store which reduces customer delivery time and cost. Dick Smith is currently the only major consumer electronics retailer in Australia and New Zealand offering fully transactional mobile apps through which customers can purchase the entire online range.

1 Source: Reader's Digest: Most Trusted Brands 2013: Iconic Brands category.

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4.3.1.2 Transformed business model that is well positioned for future growth

Dick Smith's new and experienced management team, led by Nick Abboud, has driven a significant transformation of the business through a comprehensive program of strategic, customer, operational and cultural initiatives. This program has already delivered substantial improvements to financial performance, as evidenced in the 1Q2014 results, and is expected to underpin Dick Smith's growth, with pro forma EBITDA forecast to grow to $71.8 million in FY2014 from $23.4 million in FY2013. The major initiatives of the transformation program include:

Stores and staff: Significant improvements to the productivity and profitability of stores, as well as the in-store customer experience, through a range of initiatives including investment in staff training, new store KPI dashboards, new staff incentive models, improved rostering processes and improved in-store markdown policies.

Suppliers and buying: Revitalised range and relationships with suppliers, resulting in mutually beneficial agreements and vendor support in key areas such as access to product, promotions and marketing. Dick Smith has also established strong relationships with key suppliers such as Apple and Samsung, for example reflected in the store-in-store environments, and established its own sourcing office in Hong Kong.

Marketing: Substantially increased marketing frequency, share of voice and efficiency as part of a new marketing program which involves daily and weekly promotions such as 'Dick Live Daily Deals', weekly catalogues, daily TV commercials, and greater collaboration with suppliers.

Inventory management and supply chain: Significantly reduced Dick Smith's level of obsolete stock, and put in place new buying processes to better manage stock levels going forward. Management has also right sized the distribution centre network and made numerous improvements to freight flows resulting in lower freight and handling costs.

Omni-channel: Migrated website to new digital platform allowing greater flexibility, functionality, efficiency and customer experience. Conversion has also increased through improved pricing, attachment and delivery functionality.

Other: Transitioned a number of services away from Woolworths, including the online platform, and renegotiated all major procurement contracts to reduce Dick Smith's cost base and make it more flexible.

In Australia, the transformation program is substantially completed, and the management team is focused on four clearly defined growth initiatives. In New Zealand, the transformation program has commenced more recently, with the full benefit from the major initiatives yet to be fully realised.

4.3.1.3 Clearly defined, multi-faceted growth strategy: store network, omni-channel, mobility, private label

Dick Smith has a clearly defined strategy to deliver sustained revenue and earnings growth. This strategy is based on four main opportunities: growing the store network; developing a superior omni-channel offer; enhancing the mobility offering; and increasing private label growth and profit contribution.

Store network growth: Management has opened five new stores in FY2014, with plans for a further 11 in FY2014, and believes there is an opportunity to roll out more new Dick Smith branded stores over the medium term. Management has identified numerous attractive geographies for profitable Dick Smith stores, including some created by the store closures conducted prior to the Acquisition. In addition, in October 2013 Dick Smith launched its multi-banner strategy by taking over operation of 30 David Jones Electronics Powered by Dick Smith stores, and opening the first Move store concept.

Superior omni-channel offer: Dick Smith has begun expanding its already wide-ranging omni-channel offering and taking advantage of its large store network, by beginning to fulfil customer deliveries from stores. This will allow it to offer cheaper, faster and more flexible customer delivery options. Dick Smith is also planning to significantly increase the number of products it offers online to grow sales without having to increase the numbers of SKUs ranged in stores, and to continue to roll out its online portal. Dick Smith is also continuing to drive improvements to its digital platforms to refine and optimise its omni-channel transaction platforms.

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Enhanced mobility offering: Dick Smith is the only leading consumer electronics retailer to offer access to all the major mobile phone networks in Australia via both pre-paid and, since September 2013, post-paid connections, the largest segment of the mobile phone handset market. Dick Smith complements this network offering with a leading range of handset brands, which can be bought with or without a contract, and accessories, positioning Dick Smith to capitalise on the growth in the mobile phone category. Mobility shop-in-shops are also being rolled out to most new stores.

Private label growth and profit contribution: Management, enabled by a new direct sourcing team based in Hong Kong, is focused on increasing sales and margins of private label products through an expanded private label product range, revised price and cost positioning, new product packaging, and the possible creation of a portfolio of additional private label brands.

4.3.1.4 Highly experienced and proven senior management team

The Dick Smith management team, led by Nick Abboud, has more than 200 years of retail, leadership and transformation experience in aggregate. This has allowed it to drive the rapid transformation of Dick Smith since the Acquisition. This new management team has also instilled a substantial cultural change across all levels of the organisation.

Experienced management team: Nick Abboud, who was appointed Dick Smith Managing Director and CEO in November 2012, has over 25 years of retail experience. At the time of the Acquisition, Nick Abboud and the board of Dick Smith Sub complemented the existing management team with eight new appointments. The expanded size of the management team created the management capacity required to execute a comprehensive transformation program in a short period. The management team is committed and incentivised to drive the future performance of Dick Smith, with Nick Abboud retaining a 6.5% interest in the Company, and 33 other members of the senior management team retaining a combined 5.0% interest.

Revitalised culture: Through various initiatives and strong leadership, Nick Abboud and the management team have driven a shift to a company culture that is customer-centric, action-oriented and innovative, and holds employees accountable for performance. This culture enabled the transformation to occur in a sustainable, customer-centric manner in a short period. The management team has also instilled a strong sense of corporate social responsibility, and Dick Smith now supports causes such as Ability First and the Variety NSW Dick Smith Bash, Australia's most successful charity motoring event.

4.4 What are Dick Smith's growth drivers?

Dick Smith is continuing to implement a robust growth strategy with four clearly defined pillars: growing the store network; developing a superior omni-channel offer; enhancing the mobility offering; and increasing private label growth and profit contribution. While significant progress has been made to implement these initiatives, a number of the benefits are not expected to start to be realised until late FY2014 and beyond.

4.4.1 Store network growth

Dick Smith management believes there is the opportunity to increase its Dick Smith branded store network in the medium term, based on its assessment of demographic demand and location attractiveness. Realisation of this opportunity has already commenced, with 16 new stores planned for FY2014. Five new Dick Smith branded stores have already been opened in FY2014 to date and a further 11 new stores are targeted in Australia by the end of FY2014. Sites have already been selected and leasing agreements reached for all stores yet to open in FY2014. Dick Smith has a rigorous site selection process, taking into consideration local population, demographics, competition, local retail dynamics, costs and retail landlords. Given the store closure program undertaken prior to the Acquisition, and given the transformed, more profitable store model, management believes there are a large number of attractive potential store locations available.

The exclusive retail brand management agreement with David Jones for the operation of its consumer electronics departments in 30 David Jones stores under the banner of David Jones Electronics Powered by Dick Smith is expected to provide another facet of growth for Dick Smith. These locations allow Dick Smith to target a customer demographic where management feels the Company is presently underrepresented. Management believes Dick Smith has the opportunity to increase sales by complementing the existing David Jones brand and product range with Dick Smith's current range, in particular Dick Smith's mobility and accessories offering. In addition, Dick Smith will operate the David Jones Electronics online platform and the consumer electronics divisions of selected new stores opened by David Jones.

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In October 2013, Dick Smith launched its first Move store concept at Westfield Bondi Junction in Sydney. Move is designed to capitalise on the growing trend towards mobility and accessorising mobility products, and the emergence of accessories as fashion items. As such, Move is targeting a younger and more affluent demographic than Dick Smith's existing core demographic. Dick Smith intends to roll out a further two stores by the end of FY2014 and currently believes that there is capacity for a number of Move stores in Australia and New Zealand in the longer term.

Dick Smith believes that there is scope to open additional Dick Smith branded stores in future years, that there are further growth opportunities from David Jones Electronics Powered by Dick Smith stores and that it can accelerate Move store openings.

4.4.2 Superior omni-channel offer

Over the past year, Dick Smith has evolved its online strategy into an omni-channel strategy focusing on convenience, fulfilment and mobility for customers. Dick Smith's omni-channel offering complements its store networks with online shops, mobile shops, mobile apps and in-store online portals. Each of these digital channels is used to drive sales, promote the Dick Smith brand and drive foot traffic into stores.

Dick Smith believes it is well positioned to benefit from the increasing trend towards omni-channel retailing due, in large part, to having the largest network of consumer electronics stores in Australia and New Zealand. This extensive store network provides more convenient locations for click-and-collect pick-up and more locations for store fulfilment of customer deliveries, allowing faster and cheaper delivery options. Major omni-channel initiatives being rolled out as part of the growth strategy include:

- expanding store fulfilment of deliveries from five stores to cover all customer deliveries in Australia and New Zealand;
- substantially increasing the number of SKUs available, thereby broadening Dick Smith's range without the need for additional store selling space; and
- rolling out additional in-store online portals in smaller stores and new stores.

4.4.3 Enhanced mobility offering

Dick Smith has significantly increased its focus on mobility products, in particular mobile phone handsets, one of the fastest growing consumer electronics categories in Australia and New Zealand. Management estimates Dick Smith sells over a quarter of Australian pre-paid and outright mobile phone handsets and over a third of outright mobile phone handsets. Dick Smith plans to significantly increase the contribution of its mobility business through a variety of initiatives.

Post-paid contracts represent 59% of the mobile phone handset market in Australia. Dick Smith offers post-paid mobile phone contracts across all of the major mobile phone networks, primarily using resellers, but also through direct carrier agreements. Currently, Dick Smith is the only mass market retailer in Australia to provide pre-paid and post-paid mobile phone plans on the Telstra, Optus and Vodafone mobile phone networks, as well as the Thuraya satellite networks. In New Zealand, Dick Smith offers pre-paid network access to Vodafone, 2degrees and Telecom (NZ) and also post-paid plans with 2degrees. This allows Dick Smith to offer customers the unique proposition of 'mix and match' capability across a variety of leading mobile phone handset brands, plans and networks.

In January 2013, Dick Smith began selling Apple iPhone handsets outright, and by September 2013 had become a leading reseller of pre-paid and outright iPhone handset sales in Australia. Apple is strongly represented in 171 stores, with product generally displayed on table and wall features that occupy a significant proportion of the overall store selling space, and the supplier often contributing to certain operating costs. In addition, Dick Smith has 32 Samsung and two Sony store-in-store environments, with further expansion planned, including into David Jones Electronics Powered by Dick Smith stores. Dick Smith's store-in-store arrangement with Samsung is exclusive in Australia and the Company is one of the leading retailers of Samsung mobile phones in Australia. The store-in-store formats improve the customer experience in store and add to Dick Smith's mobility and connectivity proposition.

The mobility offering is further enhanced by the new Move store concept format, which opened in October 2013 and is primarily focused on mobility products and accessories, as well as a complementary range of mobile travel products.

4.4.4 Increased private label growth and profit contribution

Dick Smith's private label products accounted for more than 10% of pro forma revenue in FY2013 and the Company expects to increase this contribution as part of its growth strategy. Dick Smith's private label products are typically higher margin than third party branded products, and as such represent both a revenue growth and margin expansion opportunity.

Dick Smith's private label product focus is primarily on televisions and accessories (e.g. cables, plugs, adaptors, batteries). The Dick Smith branded television is the leading private label sub-40 inch television in Australia. Dick Smith plans to launch its private label brand of televisions in New Zealand in 2014. Dick Smith's private label proposition is complemented by its extensive range of accessories, such as cables and batteries. In addition, new private label packaging is anticipated to be introduced in late 2013 to revitalise the image of the private label range.

As part of the private label strategy, a new Hong Kong direct sourcing team was appointed in April 2013. The new sourcing team has enabled Dick Smith to directly access a far wider range of private label products and to negotiate more favourable terms directly with agents and suppliers.

4.4.5 Other growth initiatives

In addition, Dick Smith plans to drive sales growth via:

- improving the market position and strength of the Dick Smith brand in New Zealand;
- optimising the customer offer in David Jones Electronics Powered by Dick Smith stores; and
- adjusting categories currently sold in the store network and introducing new categories to position Dick Smith at the forefront of changing customer preferences for technology and related products and services.

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Financial information

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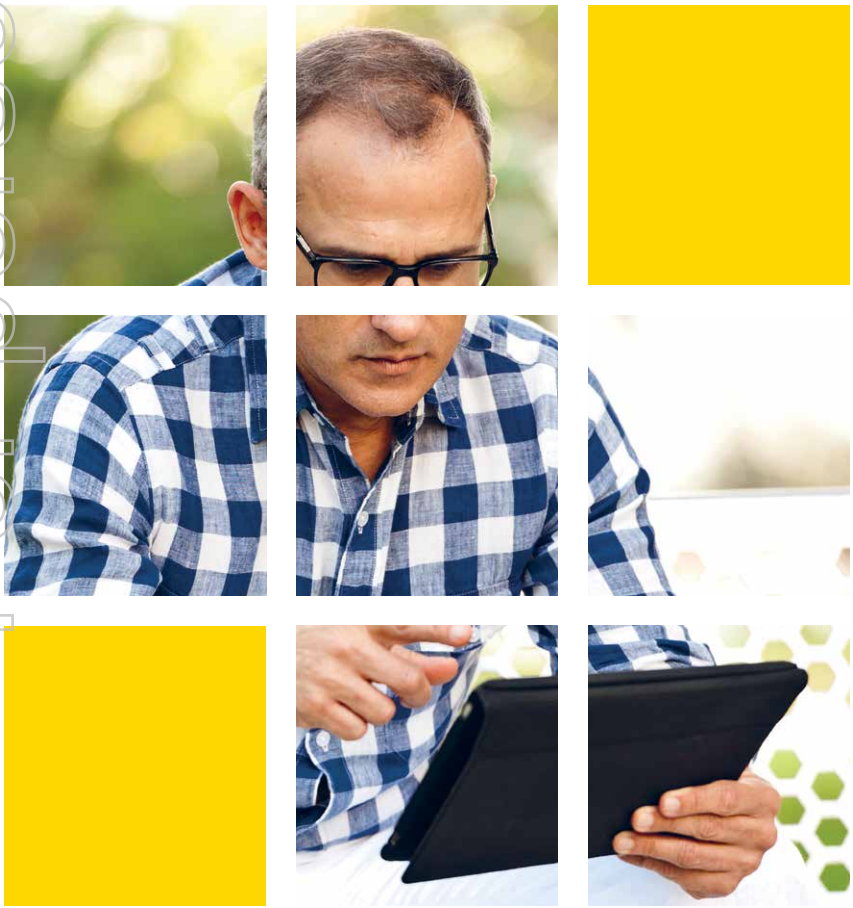

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5. Financial Information

5.1 Background

DSE was acquired by Dick Smith Sub on 26 November 2012. Immediately upon Acquisition, the new management team, led by Managing Director and CEO, Nick Abboud, drove a significant transformation of the business through a comprehensive program of strategic, customer, operational and cultural transformation initiatives. These initiatives were aimed at improving Dick Smith's financial performance and growth profile, which had been impacted by the corporate strategy and operational execution adopted by Dick Smith's previous management and owner.

As outlined in Section 4.3.1.2, the transformation program includes a comprehensive program of initiatives covering all areas of the business, including:

- stores and staff;
- suppliers and buying;
- marketing;
- inventory management and supply chain;
- omni-channel; and
- other (including contracting and procurement).

The FY2014 pro forma forecast represents the Directors' expectations for the first full year of Dick Smith's financial performance under the new management team. The Directors believe that 1Q2014 is the first actual reporting period under the new management team that reflects the impact of the transformation program undertaken and is not impacted by the strategic decisions and operational execution of the previous management team and owner.

5.2 Overview of the Financial Information

This section contains a summary of the following historical and forecast financial information of Dick Smith (together the "Financial Information"):

- Pro forma Historical Financial Information, being the:
  - pro forma historical consolidated income statements for FY2011, FY2012, FY2013 and 1Q2014, together with a reconciliation to the FY2013 statutory historical consolidated income statement (see Sections 5.4 and 5.7.1); and
  - pro forma consolidated balance sheet as at 30 June 2013 together with a reconciliation to the statutory historical consolidated balance sheet as at 30 June 2013 (see Section 5.5).
- Forecast Financial Information, being the:
  - pro forma forecast consolidated income statement for FY2014, together with a reconciliation to the FY2014 statutory forecast consolidated income statement (see Sections 5.4 and 5.7.2); and
  - pro forma forecast consolidated cash flow statement for FY2014, together with a reconciliation to the FY2014 statutory forecast consolidated cash flow statement (see Sections 5.6 and 5.7.2).

The Financial Information has been reviewed by Deloitte Corporate Finance Pty Limited, whose report is contained in Section 9.

Also summarised in this section are:

- the basis of preparation and presentation of the Financial Information (see Section 5.3);
- pro forma FY2013 adjusted sales reconciliation (see Section 5.4.2);
- pro forma FY2013 to pro forma forecast FY2014 EBITDA bridge (see Section 5.4.4);
- the Directors' best estimate assumptions underlying the Forecast Financial Information (see Section 5.11);
- an analysis of the sensitivity of FY2014 pro forma forecast EBITDA to changes in key assumptions (see Section 5.12);
- a summary of Dick Smith's capitalisation and indebtedness before and after the Offer (see Section 5.13);
- a summary of Dick Smith's banking facilities (see Section 5.14);
- a summary of Dick Smith's foreign exchange hedging policy (see Section 5.15);
- a summary of Dick Smith's commitments as at 30 June 2013 and 29 September 2013 (see Section 5.16); and
- a summary of Dick Smith's dividend policy (see Section 5.17).

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5. Financial Information

All amounts disclosed in this section are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $100,000. Tables in this section have not been amended to correct immaterial summation differences that may arise from this rounding convention.

5.3 Basis of preparation and presentation of the Financial Information

The Financial Information has been prepared in accordance with the recognition and measurement principles described in Australian Accounting Standards (including the Australian Accounting Interpretations) and the summarised accounting policies of Dick Smith as set out in Section 11. Compliance with Australian Accounting Standards ensures that the Financial Information complies with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board.

The Financial Information is presented in abbreviated form and does not include all of the disclosures, statements or comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

5.3.1 Preparation of the Historical Financial Information

The Company, Dick Smith Holdings Limited, was incorporated on 25 October 2013. On or about Settlement, the Company will acquire Dick Smith Sub. Further information on Dick Smith's corporate structure is set out in Section 10.3.

Dick Smith Sub acquired DSE from Woolworths on 26 November 2012. Prior to that date, DSE reported as part of the Woolworths consolidated group. The entities forming the Woolworths consolidated group were party to a deed of cross guarantee which, under ASIC Class Order 98/1418, relieve its wholly owned Australian subsidiaries from the requirement to prepare and have separate audited financial statements. Therefore, no audited financial statements exist for Dick Smith prior to the Acquisition.

The Historical Financial Information for the three years ended 30 June 2013, has been derived from:

- the audited financial statements of Dick Smith Sub for the period from the Acquisition to 30 June 2013; and
- the unaudited accounting records of DSE for the period from 28 June 2010 to 26 November 2012.

Under previous ownership, Dick Smith went through a significant amount of change during the approximately 24 months prior to the Acquisition. As a result, the income statements for each of the three years ended 30 June 2013 (referred to as pro forma historical financial statements) have had the following adjustments applied:

- sales and contribution to EBIT of the 73 stores that were closed prior to the Acquisition have been excluded;
- depreciation expense prior to the Acquisition has been adjusted to reflect the fair value adjustments recorded to plant and equipment at Acquisition; and
- interest and tax expense has been adjusted to reflect the post-Offer capital structure and borrowings.

The FY2013 financial information was also adjusted to remove the 53rd week of trading for consistency with the other 52 week periods presented.

The incremental annual cost that Dick Smith will incur as a public company has not been reflected in the pro forma Historical Financial Information (see Section 5.11.3 for forecast costs). Certain adjustments have also been made for costs borne by the previous owner.

In addition, in preparing the pro forma income statement for the year ended 30 June 2013, certain charges related to the Acquisition, costs of restructuring the business post Acquisition (primarily relating to the restructuring of supply chain and logistics) and the discount on Acquisition recorded in the audited financial statements have been excluded.

The unaudited income statements for the period from 1 July 2010 to 26 November 2012, which were derived from the unaudited accounting records of DSE, exclude certain items, such as inventory impairment, write downs of plant and equipment and onerous lease provisions as these adjustments were not recorded in the DSE unaudited income statements. These items were charged to either the Acquisition balance sheet or the impairment loss and restructuring provisions recorded by the previous owner.

A reconciliation of the audited financial statements for the period ended 30 June 2013 to the FY2013 pro forma historical consolidated income statement is provided in Section 5.7.1. The financial statements for the period ended 30 June 2013 were audited by Deloitte Touche Tohmatsu, which has issued an unqualified opinion.

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5. Financial Information

Dick Smith Sub will report the operating activities and financial results of the business until settlement of the Offer when the Company, which was incorporated on 25 October 2013, will become the parent company of the group through an internal restructure. The substance of the transactions contemplated under the Offer has been evaluated in accordance with AASB 3 'Business Combinations' and it has been determined that the transaction does not represent a business combination. The transactions will be accounted for as a group reorganisation using the principles of reverse acquisition. Therefore, the carrying value of the net assets will continue to be recorded at their book values as per the Dick Smith Sub consolidated financial statements and the results of the group will continue to be reported in a manner consistent with that recorded by Dick Smith Sub.

The Directors note that the accounting for transactions such as the internal restructure referred to above and contemplated in connection with the Offer is currently being reviewed by international accounting standard setters and may be subject to change. The outcome of these deliberations, the timing of any decisions and whether any potential changes are retrospective or only prospective could mean that the financial reporting outcome may be different to that reported in this Prospectus. In the event that the transactions contemplated by the Offer were required to be recorded at fair value:

- the net assets of Dick Smith would be increased to reflect the market capitalisation as a result of the Offer (an increase of approximately $404 million based on the Offer Price);
- the reserves and retained profits would be reset to nil as a result of the transactions; and
- the Directors anticipate that the excess of the fair value compared to the book value of net assets would primarily be allocated to goodwill, trade marks, business names and other assets with indefinite life not requiring amortisation, and therefore would not expect any material impact on the pro forma forecast income statement presented.

Investors should note that past results are not a guarantee of future performance.

5.3.2 Preparation of the Forecast Financial Information

The Forecast Financial Information includes the actual results of Dick Smith for the three months to 29 September 2013 and the forecast result for the nine months to 29 June 2014.

The Forecast Financial Information is presented on both a statutory and pro forma basis. The statutory forecast income statement has been prepared on a basis consistent with how Dick Smith's statutory financial statements will be prepared for future financial periods.

The pro forma forecast consolidated income statement, which is set out in Section 5.4, differs from the statutory forecast consolidated income statement as the pro forma forecast consolidated income statement reflects the full year effect of the operating and capital structure that will be in place upon completion of the Offer but excludes the costs of the Offer, the accelerated expenses of the pre-Offer management incentive scheme, one-off tax implications arising as a result of the Offer and other non-recurring items which are not expected to occur in the future. The pro forma forecast income statement also excludes certain restructuring costs expected to be incurred in FY2014. See Section 5.7.2 for reconciliations between the statutory and pro forma Forecast Financial Information.

The Directors believe that they have prepared the Forecast Financial Information with due care and attention, and having regard to an assessment of present economic and operating conditions and certain general and specific assumptions. The Directors believe the assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus.

The Directors' best estimate assumptions underlying the Forecast Financial Information are set out in Section 5.11. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on Dick Smith's actual financial performance. Investors are advised to review the Forecast Financial Information in conjunction with the general and specific assumptions set out in Section 5.11, the sensitivity analysis set out in Section 5.12, the risk factors set out in Section 6 and other information set out in this Prospectus.

The Directors have no intention to update or revise the Forecast Financial Information or other forward looking statements following the issue of this Prospectus, 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.

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5. Financial Information

5.4 Pro forma historical and forecast consolidated income statements and other information

5.4.1 Summary of pro forma historical and forecast consolidated income statements

Set out below is a summary of Dick Smith's pro forma historical consolidated income statements for FY2011, FY2012, FY2013 and 1Q2014, the pro forma forecast consolidated income statement for FY2014 and the statutory forecast consolidated income statement for FY2014. The historical income statements have been adjusted as described in Section 5.3.1 and are elaborated on further in Section 5.7.

Dick Smith's FY2011, FY2012 and FY2013 pro forma historical financials were impacted by the corporate strategy and operational execution adopted by Dick Smith under its previous management and owner. DSE was acquired by Dick Smith Sub on 26 November 2012. Immediately upon Acquisition, the new management team led by Nick Abboud drove a significant transformation of the business through a comprehensive program of strategic, customer, operational and cultural transformation initiatives. The Directors believe that 1Q2014 represents the first actual reporting period under the new management team that reflects the impact of the transformation program undertaken.

5.4.1.1 Table: Summary of pro forma historical and forecast consolidated income statements

		Pro forma historical				Pro forma forecast	Statutory forecast
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**1Q2014**	**FY2014**	**FY2014**
Sales	1,2	**1,281.1**	**1,369.5**	**1,280.4**	**273.3**	**1,226.0**	**1,226.0**
Gross profit		335.2	340.0	303.6	68.4	307.8	307.8
CODB	3	(298.8)	(307.4)	(280.1)	(56.7)	(236.0)	(261.2)
EBITDA	4	**36.5**	**32.6**	**23.4**	**11.6**	**71.8**	**46.6**
Depreciation and amortisation	5	(12.5)	(12.5)	(12.5)	(2.7)	(13.1)	(13.1)
EBIT	1,2	**23.9**	**20.1**	**10.9**	**9.0**	**58.7**	**33.5**
Net interest expense	6	(1.4)	(1.4)	(1.4)	(0.3)	(1.4)	(1.2)
Profit before tax		**22.5**	**18.7**	**9.5**	**8.7**	**57.3**	**32.3**
Income tax expense	7	(6.7)	(5.5)	(2.8)	(2.6)	(17.2)	(20.8)
NPAT	1,2	**15.9**	**13.2**	**6.7**	**6.1**	**40.0**	**11.5**
Capital expenditure	8	53.2	23.8	5.4	2.7	18.3	18.3

1 **Pro forma historical reconciliation** – A reconciliation of FY2013 pro forma historical consolidated sales, EBIT and NPAT to the FY2013 statutory accounts is set out in Section 5.7.1. Historical periods have been adjusted to remove the impact of 73 stores closed before the Acquisition. FY2013 pro forma historical has been adjusted to remove the 53rd week of trading. An adjustment has been made to depreciation as detailed in note 4 of this table.

2 **Forecast reconciliation** – An explanation of the differences between the FY2014 statutory forecast consolidated income statement and the FY2014 pro forma forecast consolidated income statement is outlined in Section 5.3.2. A reconciliation of the FY2014 pro forma forecast sales, EBIT and NPAT to statutory forecast is set out in Section 5.7.2.

3 **CODB** – Cost of doing business, which includes all expenses incurred other than the cost of goods sold, depreciation and amortisation. CODB is predominately made up of expenses associated with salaries and wages, marketing, occupancy, administration and support costs. The primary reason for the higher FY2014 statutory forecast CODB compared to the FY2014 pro forma forecast CODB is the expensing of the $21.0 million cost in relation to the Offer in the statutory forecast. The costs of the Offer are required to be expensed under Australian Accounting Standards as the transactions contemplated under and in connection with the Offer have been accounted for as a group reorganisation and none of the Offer proceeds are retained by the Company.

4 **EBITDA/EBIT reconciliation** – Reconciliations have been performed at the EBIT level in order to reflect the adjustments made to depreciation as outlined in note 5 below. Other than the depreciation adjustment, the reconciling items between pro forma and statutory EBITDA have identical adjustments as set out in Section 5.7.2.

5 **Depreciation and amortisation** – FY2011, FY2012 and FY2013 pro forma historical depreciation has been adjusted to reflect the following:

a. the removal of the depreciation expense relating to the closure of 73 stores before the Acquisition; and

b. the revised depreciation charges on continuing stores following the fair value adjustments recorded to plant and equipment as a result of the Acquisition.

6 **Net interest expense** – Under previous ownership, Dick Smith was primarily funded by intercompany arrangements. FY2011, FY2012 and FY2013 pro forma historical net interest expense has been adjusted to reflect the debt profile and interest rates applicable under the terms of the New Facility following completion of the Offer.

7 **Income tax expense** – Dick Smith's high statutory tax expense in FY2014 is primarily due to non-cash adjustments to carried forward tax losses and other deferred tax assets that arise as a result of the impact of the Offer and the formation of an Australian tax consolidated group.

8 **Capital expenditure** – Capital expenditure in FY2011 and FY2012 reflects the capital expenditure program undertaken by the previous owner as part of its substantial refurbishment program. Management believes that the FY2014 pro forma forecast capital expenditure is more reflective of the ongoing requirements of the business.

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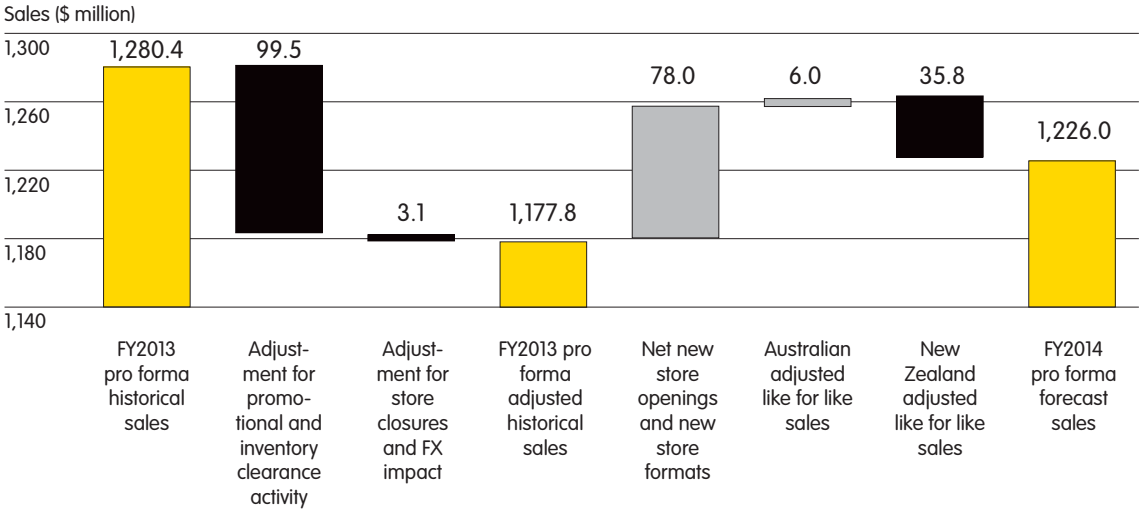
5.4.2 Pro forma adjusted sales reconciliation

Investors should be aware that certain financial data included in this section is "non-IFRS financial information" under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. The Company believes that this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of Dick Smith. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios included in this section.

In order to assist in understanding Dick Smith's key operating metrics, which are outlined in Section 5.4.3, and in the light of the substantial changes to the operations during the previous 12 months, the Directors have adjusted the comparative pro forma sales in FY2013 to reflect what Dick Smith management believes is a more comparable basis when analysing the FY2014 pro forma forecast sales. The adjustment reflects management's estimate of the sales impact of the increased promotional activity that occurred prior to the Acquisition and the inventory clearance activity undertaken prior to and subsequent to the Acquisition to clear aged and obsolete stock. Management believes that the increase in promotional activity, which was focused primarily on clearance sales, does not represent a level of clearance activity that would be incurred in a normal operating environment.

Figure 5.4.2.1 below provides a reconciliation between Dick Smith's FY2013 pro forma sales as included in Table 5.4.1.1, the FY2013 pro forma adjusted sales as estimated by management and an outline of the key drivers of growth between FY2013 pro forma adjusted sales and FY2014 pro forma forecast sales.

5.4.2.1 Figure: Dick Smith pro forma adjusted sales reconciliation



The $99.5 million adjustment for increased promotional and inventory clearance activity comprises of the following:

- $39.3 million adjustment to reflect management's estimate of the increased sales generated under previous management and ownership during 1H2013 as a result of the increased promotional and inventory clearance activity undertaken prior to the Acquisition. This adjustment reflects the amount of sales generated which management considers to be in excess of a normal level of sales based on Dick Smith's weekly trading performance in the comparable FY2014 period; and
- $60.2 million adjustment to reflect management's estimate of the increased sales as result of the further inventory clearance activity undertaken by new management following the Acquisition, over and above what would normally be conducted, in order to reduce the balance of aged and obsolete inventory. This amount has been estimated by management based on an analysis of inventory clearance sales activity since the Acquisition and an assessment of inventory aging and classification, and having regard to products and categories that will continue to be sold through Dick Smith stores.

As a part of the new store roll out program, the Company is forecasting the opening of 14 (net of two closures) Dick Smith branded stores and three Move stores in FY2014. In addition, Dick Smith signed an exclusive retail brand management agreement with David Jones in August 2013 under which Dick Smith will operate the consumer electronics division of 29 (net of one opening and two closures) David Jones stores as well as David Jones's consumer electronics online offering, under the brand 'Electronics Powered by Dick Smith' (described in Section 4.2.2.7). These net new store openings and store formats are forecast to contribute $78.0 million in additional sales in FY2014.

Management's like for like adjusted sales for Australian stores is forecast to increase by $6.0 million, an increase of 0.6%. Like for like adjusted sales in New Zealand, which represent 14.6% of FY2014 forecast sales, are forecast to decline by $35.8 million, representing a decline of 16.9%. While the implementation of the transformation program in Australia is substantially complete, the implementation in New Zealand commenced later, with many of the initiatives yet to deliver their full benefit (see Section 5.8 for further details).

Please see Section 5.11 for further discussion on the Forecast Financial Information and the Directors' best estimate assumptions underlying the Forecast Financial Information.

5.4.3 Key operating metrics

Set out below is a summary of Dick Smith's key pro forma historical operating metrics for FY2011, FY2012, FY2013 and 1Q2014 and the key pro forma forecast operating metrics for FY2014.

Investors should be aware that certain financial data included in the below table 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 condition of Dick Smith. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios included in the below table.

5.4.3.1 Table: Pro forma historical and forecast operating metrics

		Pro forma historical				Pro forma forecast
June year end	**Note**	**FY2011**	**FY2012**	**FY2013**	**1Q2014**	**FY2014**
Sales ($ million)		1,281.1	1,369.5	1,280.4	273.3	1,226.0
Sales growth on pcp			6.9%	(6.5%)	(10.6%)	(4.2%)
LFL sales growth on pcp			8.7%	(5.2%)	(12.2%)	(10.1%)
Australian LFL sales growth			8.5%	(4.0%)	(9.2%)	(7.6%)
New Zealand LFL sales growth	1		9.4%	(10.8%)	(25.3%)	(21.8%)
Pro forma adjusted sales ($ million)	2			1,177.8	273.3	1,226.0
Pro forma adjusted sales growth on pcp	2				(2.2%)	4.1%
Pro forma adjusted LFL sales growth on pcp	2				(3.1%)	(2.5%)
Pro forma adjusted Australian LFL sales growth	2				2.4%	0.6%
Pro forma adjusted New Zealand LFL sales growth	1,2				(24.7%)	(16.9%)
Gross margin	3	26.2%	24.8%	23.7%	25.0%	25.1%
CODB margin	3	23.3%	22.4%	21.9%	20.8%	19.2%
EBITDA margin	3	2.8%	2.4%	1.8%	4.3%	5.9%
EBIT margin	3	1.9%	1.5%	0.9%	3.3%	4.8%
Continuing stores (period end)	4	320	325	323	327	369

1 **New Zealand sales growth** – New Zealand sales growth is calculated with respect to New Zealand dollar sales.

2 **Pro forma adjusted sales** – Adjusted to exclude management's estimate of the increase in sales due to the increased promotional and inventory clearance activity. A reconciliation of the FY2013 pro forma sales and FY2013 pro forma adjusted sales in conjunction with the methodology employed by management and the Directors to make the adjustments, is shown in Section 5.4.2.

3 **Operating metrics** – Gross margin (%), CODB (%), EBITDA margin (%) and EBIT margin (%) have been calculated with reference to pro forma sales in the respective financial year.

4 **Continuing stores** –See Section 5.10.1 for a reconciliation of period end store numbers.

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5.4.4 Pro forma FY2013 to pro forma forecast FY2014 EBITDA

Investors should be aware that certain financial data included in this section 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 Dick Smith. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios included in this section.

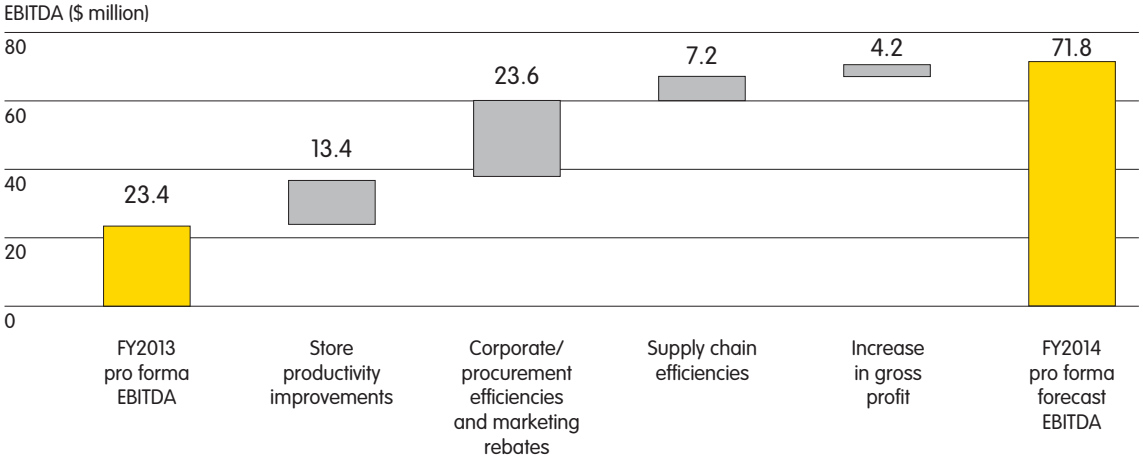
The Directors have provided this analysis in order to explain the impact on the FY2014 pro forma forecast EBITDA of the initiatives undertaken by management. This analysis should be read in conjunction with the general and specific assumptions outlined in Section 5.11.

As outlined in Section 5.11, pro forma EBITDA is forecast to increase from $23.4 million in FY2013 to $71.8 million in FY2014. This forecast growth is being driven by the comprehensive program of strategic, customer, operational and cultural transformation initiatives implemented since the Acquisition, as well as management's growth initiatives (see Section 4.1.3 for further information on the transformation program, and Section 4.4 for further information on the growth initiatives).

The financial impact of the transformation program and growth initiatives can be classified into four main categories: store productivity improvements, corporate/procurement efficiencies and marketing rebates, supply chain efficiencies, and gross profit improvements. The increase in FY2014 pro forma forecast gross profit is expected to be driven by improved gross margin and the contribution of new stores, offset by a decline in like for like sales as a result of the increased promotional and inventory clearance activity that took place in FY2013 (as described in Section 5.4.2).

Figure 5.4.4.1 shows the major drivers of the forecast increase in pro forma EBITDA between FY2013 and the forecast period FY2014.

5.4.4.1 Figure: Pro forma FY2013 to pro forma forecast FY2014 EBITDA



Store productivity improvements

Management has implemented a range of initiatives to deliver greater levels of store staff productivity, including embedding new KPI dashboards in all stores, linking store incentives to these KPI dashboards, removing middle management positions in store and developing new staff rostering policies and processes to better match staff levels with customer traffic. At the same time, to improve in-store customer experience, Dick Smith has rolled out its bespoke "Serve Forward" staff training program to all store managers, revitalised its recruitment profiles and policies, and conducted an extensive program of customer insights research. Occupancy costs were managed by developing strong alliances with major landlords and addressing unproductive space in larger format stores.

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5. Financial Information

Corporate/Procurement efficiencies and marketing rebates

A number of improvement initiatives were driven in key head office functional areas. Dick Smith management has increased the efficiency of media expenditure, substantially increasing media volumes and share of voice, and also increased marketing collaboration with suppliers. Lease agreements for corporate offices were also renegotiated, as were all major corporate supply agreements.

Supply chain efficiencies

Dick Smith's supply chain has been substantially restructured since the Acquisition. Both the Hoxton Park, NSW and Perth, WA distribution centres were closed in late FY2013, and a number of freight flow efficiencies were implemented, including shipping bulky items direct to store and rerouting supplier shipments direct to the distribution hubs of Dick Smith's freight partner. Staffing levels were reduced in the remaining distribution centres in Chullora, NSW and Auckland, New Zealand to reflect lower inventory holding levels and reduced freight flows through the distribution centres. Major supplier agreements were also renegotiated.

Increase in gross profit

Pro forma gross margin is forecast to increase from 23.7% in FY2013 to 25.1% in FY2014 as a result of a wide range of pricing, supplier and range mix initiatives, as well as improvements to buying and stock management practices. Agreements with major suppliers have been renegotiated and new buying disciplines introduced to improve planning and increase accountability for stock levels and discounting. New pricing and promotion practices were developed in collaboration with suppliers, and improvements were made to in-store markdown procedures. Dick Smith's range was revamped to focus on higher margin products and brands, and a new direct sourcing office was established in Hong Kong to enable more efficient purchasing, particularly for private label products and accessories. In addition, the roll out of new stores is forecast to contribute to an increase in gross profit in FY2014. Despite the forecast increase in gross margin in FY2014, the gross profit contribution of existing stores in dollar terms is expected to be lower than in FY2013 due to higher sales in FY2013 as a result of increased promotional and inventory clearance activity (see Section 5.4.2).

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5. Financial Information

5.5 Statutory and pro forma historical consolidated balance sheets

Set out below are the adjustments that have been made to the audited statutory historical consolidated balance sheet for Dick Smith as at 30 June 2013 to prepare the pro forma consolidated historical balance sheet for Dick Smith as at 30 June 2013.

5.5.1.1 Table: Statutory and pro forma historical consolidated balance sheets

As at 30 June 2013 ($ million)	Note	Statutory	Adjustments	Pro forma
ASSETS				
Current assets				
Cash	1	46.5	(33.5)	13.0
Receivables		10.4	–	10.4
Inventories		168.5	–	168.5
Other current assets		15.8	–	15.8
Total current assets		**241.2**	**(33.5)**	**207.7**
Non-current assets				
Net property, plant and equipment		60.3	–	60.3
Deferred tax assets	2	42.9	(4.0)	38.9
Total non-current assets		**103.2**	**(4.0)**	**99.2**
TOTAL ASSETS		**344.4**	**(37.5)**	**306.9**
LIABILITIES				
Current liabilities				
Trade and other payables	3	153.3	(24.0)	129.3
Other current liabilities		19.0	–	19.0
Total current liabilities		**172.3**	**(24.0)**	**148.3**
Non-current liabilities				
Borrowings	4	–	26.5	26.5
Other		15.6	–	15.6
Total non-current liabilities		**15.6**	**26.5**	**42.1**
TOTAL LIABILITIES		**187.9**	**2.5**	**190.4**
NET ASSETS		**156.5**	**(40.0)**	**116.5**
EQUITY				
Contributed equity	5	10.0	337.0	347.0
Reserves	5	6.3	(350.6)	(344.3)
Retained profits	6	140.2	(26.4)	113.8
TOTAL EQUITY		**156.5**	**(40.0)**	**116.5**

1 **Impact of the Offer and the New Facility** – Adjustment to reflect the payment of $21.0 million in costs associated with the Offer, payment of $15.0 million to reflect the adjustment to the purchase price consideration for Dick Smith Sub Shares purchased and payable to the Existing Ordinary Shareholders, payment to Woolworths of $24.0 million as part of the deferred consideration on the Acquisition and the $27.2 million drawdown of the New Facility less establishment fees of $0.7 million.

2 **Deferred tax adjustment** – $6.3 million adjustment to reflect the combined effect of the deferred tax impact of certain costs associated with the Offer, offset by a $10.3 million adjustment to carried forward tax losses and other deferred tax assets that arise as a result of the impact of the Offer and the formation of an Australian tax consolidation group. A full assessment of the implications of the formation of an Australian tax consolidation group will be completed following the Offer.

3 **Trade and other payables** – Adjustment to reflect the $24.0 million payment to Woolworths representing the deferred purchase price consideration relating to the Acquisition.

4 **New Facility** – $26.5 million adjustment to non-current borrowings to reflect the $27.2 million drawdown of funds under the New Facility less establishment costs of $0.7 million which are included in the costs associated with the Offer.

5 **Adjustments to contributed equity and reserves** – $337.0 million adjustment to reflect the change in the book value of consolidated contributed equity occurring as part of the Offer. The value of the new Shares issued for cash under the Offer is based on the Offer Price. As discussed in Section 5.3.1, the acquisition of Dick Smith Sub by the Company has been treated as an internal restructure and no fair value adjustments have been made. Consequently, the difference between the equity and net assets of Dick Smith recognised is recorded in a reorganisation reserve, as well as a $1.4 million adjustment to reserves associated with the Employee Award Offer.

6 **Adjustment to retained profits** – $14.7 million adjustment to reflect the after-tax expensed portion of costs associated with the Offer. $1.4 million adjustment to reflect the expenses related to Employee Award Offer. $10.3 million adjustment to reflect the expected impact of the Offer and formation of an Australian tax consolidated group on recorded deferred tax assets.

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5. Financial Information

5.6 Pro forma and statutory consolidated cash flow statement

Set out below are Dick Smith's FY2014 pro forma forecast consolidated cash flow statement and statutory forecast consolidated cash flow statement. Details of the pro forma adjustments made to arrive at the statements below are set out in Section 5.7.2.

Prior to the Acquisition, many of Dick Smith's treasury functions were performed by its previous owner. These functions included the processing of receipts and payments through the previous owner's bank accounts and transactions recorded in intercompany accounts, rather than stand-alone Dick Smith bank accounts. Therefore, historical cash flows have not been provided.

5.6.1.1 Table: Pro forma and statutory forecast cash flow statement

Financial year ending 29 June 2014 ($ million)	Note	Statutory forecast FY2014	Pro forma forecast FY2014
EBITDA		**46.6**	**71.8**
Movement in working capital		(6.8)	(6.8)
Net interest paid		(1.2)	(1.4)
Income tax payments		(2.2)	(2.2)
Share-based payments	1	3.4	0.6
Net cash flow from operating activities		**39.9**	**62.0**
Capital expenditure		(18.3)	(18.3)
Net cash flow from investing activities		**(18.3)**	**(18.3)**
Proceeds from issue of equity securities	2	344.5	–
Payment for the acquisition of shares in Dick Smith Sub	2	(359.5)	–
Repayment of deferred consideration	3	(24.0)	–
Net cash flow from financing activities		**(39.0)**	**–**
Net increase/(decrease) in cash held	4	**(17.4)**	**43.7**

1 **Share based payments** – Adjustment for non cash impact of equity-based incentive schemes.

2 **Issue and acquisition of shares** – $344.5 million represents the proceeds raised by the Company as part of the Offer based on the Offer Price. The proceeds will be immediately used to facilitate the acquisition of shares in Dick Smith Sub for cash of $359.5 million (along with Shares, as disclosed in Section 10.4.1). The payment includes a $15.0 million adjustment to the purchase price consideration payable to the Existing Ordinary Shareholders.

3 **Deferred Acquisition payment** – Adjustment to reflect the $24.0 million payment to Woolworths, representing the deferred purchase price consideration relating to the Acquisition.

4 **Reconciliation** – A reconciliation of pro forma forecast net cash flow for FY2014 to statutory forecast net cash flow for FY2014 is set out in Section 5.7.1.

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5. Financial Information

5.7 Pro forma and statutory reconciliations

5.7.1 FY2013 pro forma and statutory reconciliation

Set out below is a reconciliation from the audited statutory financial statements for the year ended 30 June 2013 to the FY2013 pro forma historical consolidated income statement.

5.7.1.1 Table: FY2013 pro forma and statutory reconciliation

Financial year ended 30 June 2013 ($ million)	Note	Sales	EBIT	NPAT
Audited statutory accounts for the financial period ended 30 June 2013	1	**791.4**	**139.9**	**140.2**
Adjustment for 53 week period	2	(30.2)	(1.7)	(1.2)
Results from 25 June 2012 to 25 November 2012 (for continuing stores only)	3	519.2	0.6	0.4
Acquisition and restructuring costs	4	–	14.2	9.9
Discount on Acquisition	5	–	(145.8)	(145.8)
Depreciation	6	–	3.7	2.6
Capital structure	7	–	–	0.6
Pro forma income statement		**1,280.4**	**10.9**	**6.7**

1 **Audited statutory accounts** – Represents the audited statutory financial performance for the financial period ended on 30 June 2013, incorporating the results of Dick Smith from the Acquisition on 26 November 2012 to 30 June 2013. As outlined in Section 5.3.1, no audited financial statements exist prior to the Acquisition.

2 **Adjustment for 53 week period** – Dick Smith's FY2013 fiscal year had 53 weeks. Dividing the retail calendar into 52 weeks of seven days each, or 364 days, leaves an extra day each year to be accounted for. As a result, every five to six years a week is added to the fiscal calendar. The income statement has been adjusted to remove the financial impact of the extra week of trading to be consistent with the other historical and forecast periods presented.

3 **Results from 25 June 2012 to 25 November 2012** – Represents the financial performance for the period from 25 June 2012 to 25 November 2012 after excluding the contribution of the stores closed under previous management as outlined in Section 5.3.1.

4 **Acquisition and restructuring costs** – FY2013 acquisition and restructuring costs reflect the following expenses: $3.3 million in costs relating to the Acquisition, $8.4 million in staff redundancy payments and other costs related to the restructure of the business post Acquisition and $2.5 million in costs related to achieving a significant reduction in the inventory balance.

5 **Discount on Acquisition** – Removes the discount on acquisition recorded in the statutory accounts.

6 **Depreciation** – FY2013 pro forma historical depreciation has been adjusted to reflect:

a. the removal of the depreciation expense relating to the closure of 73 stores prior to the Acquisition; and

b. the revised depreciation charges on continuing stores following the fair value adjustments recorded to plant and equipment on Acquisition.

7 **Capital structure** – the net interest expense and tax expense included in the historical income statements have been adjusted to reflect the anticipated debt profile of and interest rates applicable to Dick Smith under the terms of the New Facility following completion of the Offer and the expected effective tax rate.

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5.7.2 Pro forma adjustments to the Forecast Financial Information

Set out below is a reconciliation between statutory forecast and pro forma forecast financial information for FY2014.

5.7.2.1 Table: Pro forma adjustments to forecast financial statements

Financial year ending 29 June 2014 ($ million)	Note	Sales	EBIT	NPAT	Net cash flow
FY2014 statutory forecast		**1,226.0**	**33.5**	**11.5**	**(17.4)**
Restructuring costs	1	–	2.0	1.4	2.0
Corporate costs	2	–	(0.7)	(0.5)	(0.7)
Share based payments	3	–	2.8	2.8	–
Impact of the Offer	4	–	21.0	14.7	21.0
Impact of new capital structure	5	–	–	(0.2)	(0.2)
Repayment of Woolworths liability	6	–	–	–	24.0
Acquisition price adjustment to Existing Owners	7	–	–	–	15.0
Tax adjustments	8	–	–	10.3	–
FY2014 pro forma forecast		**1,226.0**	**58.7**	**40.0**	**43.7**

1 **Restructuring costs** – $2.0 million adjustment to reflect restructuring and redundancy expenses forecast to be incurred primarily in relation to supply chain and logistics restructuring.

2 **Corporate costs** – $0.7 million adjustment to reflect the full year impact of public company listing and administration costs including the full year impact of listing fees, Board fees and administration costs.

3 **Share based payments** – $1.4 million adjustment to reflect the accelerated expense of the management incentive scheme pursuant to which the Management Shareholders received their Dick Smith Sub Shares plus a $1.4 million expense relating to the Employee Award Offer.

4 **Impact of the Offer** – $21.0 million adjustment to reflect the costs expensed by the Company in relation to the Offer.

5 **Impact of new capital structure** – the net interest expense included in the pro forma forecast income statement has been adjusted to reflect the anticipated debt profile of and interest rates applicable to Dick Smith under the terms of the New Facility following completion of the Offer from the beginning of the financial year.

6 **Repayment of Woolworths liability** – Adjustment to reflect the $24.0 million payment to Woolworths representing the deferred purchase price consideration relating to the Acquisition.

7 **Acquisition price adjustment** – Represents the net balance of the proceeds of the Offer of $344.5 million and the payment to the Existing Ordinary Owners of $359.5 million.

8 **Tax adjustments** – Adjustment to reflect expected impact of the Offer and formation of an Australian tax consolidated group on recorded deferred tax assets which is expected to result in a write off of deferred tax assets of approximately $10.3 million. A full assessment of the implications of the formation of an Australian tax consolidation group will be completed following the Offer.

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5. Financial Information

5.8 Segment information

There are two reportable segments where the chief operating decision maker receives information for the purpose of resource allocation and assessment of segment performance, which are Australia and New Zealand. Dick Smith's primary reporting format is geographical segments as its risks and rates of return are predominantly affected by having operations in different countries.

5.8.1 Geographical segments

Australia

This segment consists of the operations in Australia. Dick Smith operated 262 stores in Australia as at 30 June 2013 and 266 stores as at 29 September 2013.

New Zealand

This segment consists of the operations in New Zealand. Dick Smith operated 61 stores in New Zealand as at 30 June 2013 and 29 September 2013.

5.8.1.1 Table: Historical and forecast segment financials

	Pro forma historical				Pro forma forecast
$ million	**FY2011**	**FY2012**	**FY2013**	**1Q2014**	**FY2014**
Sales					
Australia	1,042.9	1,118.1	1,059.4	230.3	1,047.2
New Zealand	238.2	251.5	221.0	43.0	178.8
Total sales	**1,281.1**	**1,369.5**	**1,280.4**	**273.3**	**1,226.0**
EBITDA					
Australia	28.9	25.4	19.7	9.6	63.3
New Zealand	7.6	7.2	3.7	2.0	8.5
Total EBITDA	**36.5**	**32.6**	**23.4**	**11.6**	**71.8**

FY2014 is anticipated to be a transition year for the New Zealand operations, reflecting the timing of the implementation of Dick Smith's transformation program. Management forecasts a significant improvement in New Zealand EBITDA in FY2014, despite a 21.8% local currency decline in pro forma like for like sales. The key transformation initiatives being implemented in FY2014, which are expected to drive the improvement in gross margin and CODB, include a new pricing structure, improved supplier terms, store productivity improvements and marketing approach. These transformation initiatives are aligned with those already implemented in Australia.

Sales are expected to be impacted by the implementation of the new pricing structure, with low margin sales activity reduced, coupled with an anticipated increase in competition in an already competitive market (following its acquisition of Noel Leeming, The Warehouse Group has increased its focus on computers and other consumer electronics products, with Noel Leeming also improving sales). These factors are expected to result in management's estimated pro forma adjusted New Zealand like for like sales declining 16.9% in FY2014. The improvement from 1Q2014, which recorded a 24.7% decline in management's adjusted like for like sales, reflects the timing of the implementation of the transformation initiatives. The impact on gross margin and CODB is forecast to be similar to that experienced in Australia when at a similar stage of the transformation process.

5.9 Seasonality

There is a seasonal fluctuation in Dick Smith's business. As a result, sales and EBITDA are generally higher in the first half of the year as this half includes the Christmas trading period, which has a higher proportion of sales and higher EBITDA margins as a result of operating leverage.

The table below demonstrates the impact of seasonality on sales and EBITDA of Dick Smith.

5.9.1.1 Table: Historical and forecast seasonality of financials

June year end	Pro forma historical						Pro forma forecast	
	1H2011/ FY2011	2H2011/ FY2011	1H2012/ FY2012	2H2012/ FY2012	1H2013/ FY2013	2H2013/ FY2013	1H2014/ FY2014	2H2014/ FY2014
Sales	54%	46%	52%	48%	55%	45%	52%	48%
EBITDA	71%	29%	72%	28%	76%	24%	56%	44%

EBITDA in the 2H2014 pro forma forecast as a percentage of FY2014 EBITDA is above the historical levels in the pro forma financials. FY2014 pro forma forecast EBITDA takes into account expected profitability improvements from the transformation program. Management believes that the expected seasonality of FY2014 EBITDA in terms of the proportion of EBITDA earned in each half year will be more representative of Dick Smith's seasonality of earnings going forward. This reflects the impact of the transformation program, in particular, the benefits of operating cost reductions which are spread relatively evenly through the financial year.

5.10 Management discussion and analysis of the Historical Financial Information

5.10.1 General factors affecting the operating results of Dick Smith

Below is a brief discussion of the main factors which affected Dick Smith's operating financial performance in FY2011, FY2012, FY2013 and 1Q2014. The factors described below are a summary only and do not represent everything that affected Dick Smith's historical financial performance.

Organisational structure, management and ownership

Dick Smith's financial results in FY2011 and FY2012 were achieved under the previous management team and ownership. FY2013 financial results incorporate approximately five months of performance under previous ownership (from 25 June 2012 to 25 November 2012) and approximately seven months of performance under the current ownership and Dick Smith's new management team (26 November 2012 to 30 June 2013).

In 2H2012 and from 25 June 2012 to 25 November 2012, a strong focus on increasing sales resulted in the previous Dick Smith management team investing in increased promotional activity and price discounting. This increased promotional activity and price discounting impacted Dick Smith's sales in the first five months of FY2013. This increase in sales negatively affected gross margins.

Dick Smith Sub acquired Dick Smith on 26 November 2012. Immediately upon Acquisition, new management of Dick Smith implemented a further inventory clearance program from 26 November 2012 to 30 June 2013. In particular, the inventory clearance program targeted a reduction in aged and obsolete inventory. Again, the magnitude of the price discounting meant that gross profit margins on these sales were significantly reduced.

The net effect of the increased promotional activity and price discounting undertaken by Dick Smith's previous owners and the further inventory clearance program implemented by new management was an increase in FY2013 pro forma sales which Dick Smith new management does not believe reflects normal trading conditions or the expected future operating performance (see Section 5.4.2 for discussion).

The Directors believe that 1Q2014 is the first actual reporting period under the new management team that reflects the impact of the transformation program undertaken.

At the time of the Acquisition, Nick Abboud and the board of Dick Smith Sub complemented the existing management team with eight new appointments, creating a team with over 200 years of retail experience. The expanded size of the management team created the management capacity required to execute a comprehensive transformation program in a short period.

Transformational program

Dick Smith's historical financial performance in FY2011, FY2012 and FY2013 was impacted by the corporate strategy and operational execution adopted by Dick Smith's previous management and owner. Dick Smith's transformation program (as outlined in Section 4.3.1.2), led by Nick Abboud immediately after the Acquisition, has been a key driver of performance in 1Q2014.

In Australia, these initiatives have already delivered significant improvements to Dick Smith's financial performance, with further benefits expected in the remainder of FY2014 and in the future. In Australia, Dick Smith is now positioned for growth and has already commenced implementation of its growth plan. While the implementation of the transformation program in Australia is substantially complete, the implementation in New Zealand commenced later, with many of the initiatives yet to deliver their full benefit (see Section 5.8 for further details).

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5. Financial Information

Impact of macroeconomic conditions on the retail environment

Dick Smith's financial performance is impacted by global economic conditions and their effect on the retail environment. As a result of subdued economic conditions both globally and in Australia and New Zealand, consumer confidence has gone through a period of decline, which had a negative impact on Dick Smith's financial performance in FY2011, FY2012 and FY2013.

Store openings and closures

Dick Smith's sales and earnings are impacted by the opening and closure of stores. New stores are drivers of sales growth and generally earnings growth. Between July 2011 and the completion of the Acquisition, 73 stores were closed by Dick Smith's previous owner. The Historical Financial Information has been adjusted to reflect Dick Smith's 325 continuing stores as at the time of the Acquisition.

5.10.1.1 Table: Store profile of continuing and discontinued stores

		Historical				Forecast
June year end	**Note**	**FY2011**	**FY2012**	**FY2013**	**1Q2014**	**FY2014**
Beginning number of stores		416	394	348	323	323
Dick Smith branded stores opened		16	7	2	4	16
David Jones Electronics Powered by Dick Smith stores opened		–	–	–	–	31
Move stores opened		–	–	–	–	3
Stores closed		38	53	27	–	4
Ending number of stores		394	348	323	327	369
Continuing stores	1,2	**320**	**325**	**323**	**327**	**369**

1 Historical Financial Information excludes the 73 stores closed by the previous owner between July 2011 and the completion of the Acquisition.

2 The number of continuing stores in FY2011 has been reduced by one to reflect the closure of the Papanui Dick Smith store (New Zealand) which was closed in March 2012 due to the Christchurch earthquake. Dick Smith stores closed post the Acquisition have been included in the continuing stores amount as they have been assumed to occur in the ordinary course of business.

5.10.2 1Q2014

5.10.2.1 Table: Summary of 1Q2014 and FY2014 results

June year end, $ million	**Pro forma 1Q2014**	**Pro forma FY2014**
Sales	273.3	1,226.0
Gross profit	68.4	307.8
Gross margin	25.0%	25.1%
CODB	(56.7)	(236.0)
CODB margin	20.8%	19.3%
EBITDA	11.6	71.8
EBITDA margin	4.3%	5.9%
EBIT	9.0	58.7
EBIT margin	3.3%	4.8%
Capital expenditure	2.7	18.3

Dick Smith's pro forma historical financial performance was impacted by the corporate strategy adopted by, and operational execution of, Dick Smith's previous management and owner. These strategies continued to impact the business in 2H2013 due to the need to reduce levels of aged and obsolete inventory. As a result, the 1Q2014 results represent the first period of financial performance which has not been materially impacted by the strategic decisions and operational execution of the previous management team.

Dick Smith's historical pro forma results for 1Q2014 demonstrate a significantly improved financial performance, as further transformation initiatives were implemented during the period and the collective benefit of the implemented initiatives delivered improved performance.

Pro forma sales declined by 10.6% to $273.3 million in 1Q2014 on the previous corresponding period, while like for like pro forma sales declined by 12.2% over the same corresponding period. The decline in sales was largely due

to the cycling of increased sales in 1Q2013 that were associated with increased promotional and inventory clearance activity (see Section 5.4.2 for an explanation of management's estimate of the impact). When compared against management's pro forma adjusted 1Q2013 sales, 1Q2014 pro forma sales declined by 2.2% on a total basis and declined by 3.1% on a like for like basis. The overall decline of management's adjusted like for like sales in 1Q2014 was driven by adjusted like for like pro forma sales growth in Australia of 2.4%, offset by a decline in adjusted like for like pro forma sales in New Zealand of 24.7%. Management believes that the decline in like for like sales experienced in New Zealand reflects the earlier stage of implementation of the transformation program within New Zealand relative to that for the Australian operations (see Section 5.8 for further details).

As part of Dick Smith's transformation program, a range of gross profit margin initiatives were implemented, including:

- improved inventory management practices;
- revamping the range and mix of brands and products, and increased focus on mobility;
- renegotiating supplier agreements (e.g. pricing and terms);
- developing a new pricing and promotional practice in collaboration with suppliers;
- optimisation of freight movements; and
- opening a new Hong Kong direct sourcing office and retendering of sourcing costs.

These initiatives have increased 1Q2014 gross profit margin to 25.0%, which is already broadly in line with the FY2014 forecast of 25.1%.

Dick Smith's pro forma cost of doing business in 1Q2014 was $56.7 million, or 20.8% of pro forma sales. This compared favourably to the pro forma CODB margin of 21.9% in FY2013 and 22.4% in FY2012. The 1Q2014 pro forma cost of doing business of $56.7 million compares with $236.0 million forecast in FY2014. The improvement in CODB margin for the quarter was the result of the transformation program including initiatives such as:

- investment in new staff training and implementing new staff rostering processes;
- developing a new marketing program with increased frequency and effectiveness;
- implementing a new staff incentive model linked to new KPI dashboards;
- developing strong alliances with major landlords; and
- streamlining and right sizing the distribution centre network.

Pro forma EBITDA in 1Q2014 was $11.6 million, or 4.3% of pro forma sales. This was a significant improvement on the pro forma EBITDA margin of 1.8% in FY2013 and 2.4% in FY2012. The improvement in Dick Smith's pro forma EBITDA was due to a combination of the product mix, pricing, gross profit and cost of doing business transformation initiatives previously described.

5.10.3 FY2013 compared to FY2012

5.10.3.1 Table: Summary of results for the financial year ended 30 June 2013 compared to the financial year ended 24 June 2012

	Pro forma historical		
June year end, $ million	**FY2012**	**FY2013**	**Change**
Sales	1,369.5	1,280.4	(6.5%)
Gross profit	340.0	303.6	(10.7%)
Gross margin	24.8%	23.7%	(112)bps
CODB	(307.4)	(280.1)	(8.9%)
CODB margin	22.4%	21.9%	(57)bps
EBITDA	32.6	23.4	(28.1%)
EBITDA margin	2.4%	1.8%	(55)bps
EBIT	20.1	10.9	(45.6%)
EBIT margin	1.5%	0.9%	(61)bps
Capital expenditure	23.8	5.4	(78.0%)

Note: Until 26 November 2012, Dick Smith operated under a different management team and owner.

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Pro forma sales decreased by 6.5% to $1,280.4 million in FY2013, while like for like pro forma sales declined by 5.2%. Pro forma sales were boosted by the increased promotional and inventory clearance activity in 1H2013 offset by the cycling of strong sales of new exclusive products in the prior year.

Pro forma gross profit decreased by 10.7% to $303.6 million in FY2013. The decrease in pro forma gross profit was a result of both a decrease in sales and a reduction in gross profit margin. The pro forma gross profit margin in FY2013 was 23.7%, 112bps lower than in FY2012. The fall in pro forma gross profit margin was largely driven by increased inventory clearance activity in FY2013, which attracted sales at substantially lower margins.

Dick Smith's pro forma cost of doing business decreased by 8.9% in FY2013 to $280.1 million. The pro forma CODB margin improved by 57bps in FY2013. The decrease in the pro forma cost of doing business was largely driven by initiatives which had already been implemented as a part of the transformation program.

Pro forma EBITDA decreased by 28.1% to $23.4 million in FY2013. Pro forma EBITDA as a percentage of sales fell 55bps to 1.8% of sales. The decrease in Dick Smith's pro forma EBITDA was driven by the fall in gross profit, which was partially offset by an improvement in the cost of doing business.

5.10.4 FY2012 compared to FY2011

5.10.4.1 Table: Summary of results for the year ended 24 June 2012 compared to the year ended 26 June 2011

	Pro forma historical		
June year end, $ million	**FY2011**	**FY2012**	**Change**
Sales	1,281.1	1,369.5	6.9%
Gross profit	335.2	340.0	1.4%
Gross margin	26.2%	24.8%	(134)bps
CODB	(298.8)	(307.4)	2.9%
CODB margin	23.3%	22.4%	(88)bps
EBITDA	36.5	32.6	(10.5%)
EBITDA margin	2.8%	2.4%	(46)bps
EBIT	23.9	20.1	(16.0%)
EBIT margin	1.9%	1.5%	(40)bps
Capital expenditure	53.2	23.8	(54.5%)

Note: Until 26 November 2012, Dick Smith operated under a different management team and owner.

Pro forma sales increased by 6.9% during FY2012 to $1,369.5 million, with like for like pro forma sales growth of 8.7%. Sales growth in the first half of the financial year was driven by the addition of new products which were exclusive to Dick Smith and in the second half of the financial year was driven by increased promotional activity.

Pro forma gross profit rose by 1.4% to $340.0 million in FY2012 as a result of the increase in sales. The pro forma gross profit margin fell by 134bps to 24.8%. The decrease in gross profit margin was driven by increased inventory clearance activity, promotional discounting and an unfavourable shift in product mix towards lower margin products.

Dick Smith's pro forma cost of doing business increased by $8.6 million or 2.9%, from $298.8 million to $307.4 million in FY2012. As a percentage of pro forma sales, pro forma cost of doing business fell by 88bps to 22.4%. The reduction in Dick Smith's pro forma CODB margin was a result of increased store labour efficiency, supply chain improvements and a reduction in head office costs.

Pro forma EBITDA decreased by 10.5% in FY2012 to $32.6 million. As a percentage of pro forma sales, pro forma EBITDA decreased by 46bps to 2.4%. Pro forma EBIT decreased by 16.0% to $20.1 million in FY2012. Pro forma EBIT as a percentage of sales decreased by 40bps to 1.5%. The decrease in pro forma EBITDA and pro forma EBIT was a result of the fall in gross profit margin, which was partially offset by a reduction in pro forma CODB margin.

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5.11 Best estimate assumptions underlying the Directors' forecasts

The Forecast Financial Information is based on various best estimate assumptions, including those set out below. These assumptions should be read in conjunction with the sensitivity analysis set out in Section 5.12 and the risk factors set out in Section 6.

5.11.1 General assumptions

In preparing the Forecast Financial Information, the following general assumptions relating to the forecast period have been adopted by the Directors:

- no material change in the competitive operating environment in which Dick Smith operates;
- no significant deviation from current market expectations of global or local Australian economic conditions relevant to the consumer retail industry in Australia and New Zealand;
- no material changes in Commonwealth, state or local government legislation, tax legislation, regulatory legislation, regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Dick Smith;
- no material changes in applicable Australian Accounting Standards or other mandatory professional reporting requirements or the Corporations Act which have a material effect on Dick Smith's financial performance, financial position, accounting policies, financial reporting or disclosure;
- no material business acquisitions or disposals;
- no material industrial strikes or other disturbances, environmental costs or legal claims;
- retention of key personnel;
- no change in Dick Smith's capital structure other than as set out in, or contemplated by, this Prospectus;
- no material amendment to any material agreement or arrangement relating to Dick Smith's businesses;
- no material adverse changes to Dick Smith's offshore product sourcing capabilities and costs, including exchange rates; and
- none of the risks listed in Section 6 have a material adverse impact on the operations of Dick Smith.

5.11.2 Pro forma forecast consolidated income statement for FY2014

Set out below is a summary of Dick Smith's pro forma historical consolidated income statement for FY2013, and the summary pro forma forecast consolidated income statement for FY2014.

5.11.2.1 Table: Summary of pro forma forecast results for the financial year ending 29 June 2014 compared to the pro forma historical results for the financial year ended 30 June 2013

June year end, $ million	Pro forma historical FY2013	Pro forma forecast FY2014	Change
Sales	1,280.4	1,226.0	(4.2%)
Gross profit	303.6	307.8	1.4%
Gross margin	23.7%	25.1%	140bps
CODB	(280.1)	(236.0)	(15.8%)
CODB margin	21.9%	19.2%	(263)bps
EBITDA	23.4	71.8	206.3%
EBITDA margin	1.8%	5.9%	403bps
EBIT	10.9	58.7	436.2%
EBIT margin	0.9%	4.8%	393bps
Capital expenditure	5.4	18.3	241.7%

5.11.3 Specific assumptions

Set out below are specific best estimate assumptions that have been adopted by the Directors in preparing the Forecast Financial Information.

Sales

Total FY2014 pro forma forecast sales of $1,226.0 million represents a 4.2% decline on FY2013 pro forma sales of $1,280.4 million and a 4.1% increase on management's FY2013 pro forma adjusted sales of $1,177.8 million (see Section 5.4.2 for an explanation of pro forma adjusted sales).

Like for like sales (existing stores)

FY2014 pro forma like for like sales are forecast to decline by 10.1% in FY2014. Like for like sales on management's pro forma adjusted basis are forecast to decline by 2.5% in FY2014, with sales based on a weekly store sales run rate that is currently being achieved in 1Q2014, adjusted for seasonality. It has been assumed that product and category mix continue to be weighted towards private label brands, consistent with previous periods.

The overall forecast decline in management's adjusted like for like sales in FY2014 is expected to be driven by pro forma adjusted like for like sales growth in Australia of 0.6% offset by a decline in pro forma adjusted like for like sales in New Zealand of 16.9%. The forecast decline in like for like pro forma sales in New Zealand is expected to be driven by the earlier stage of implementation of the transformation program within New Zealand relative to that of the Australian operations (see Section 5.8 for further details).

The increased like for like pro forma sales forecast in FY2014 compared to FY2013 pro forma adjusted sales is forecast to be driven by both the impact of certain transformation initiatives (see Section 4.4) as well as management's growth strategy.

New stores

As a part of the new store roll out program, the Company is forecasting the opening of 14 (net of closures) Dick Smith branded stores and three Move stores in FY2014. Based on the more profitable store model, management has identified numerous attractive geographies for profitable Dick Smith branded stores, including some network gaps created by the store closures conducted prior to the Acquisition. In addition, Dick Smith signed an exclusive retail brand management agreement with David Jones in August 2013 under which Dick Smith will operate the consumer electronics division of 29 (net of one opening and two closures) David Jones stores as well as David Jones's consumer electronics online offering, under the brand 'Electronics Powered by Dick Smith'. The sales contribution of new Dick Smith and Move stores is based on the sales profile of similar sized stores. It has been assumed that the sales contribution of the David Jones stores operated by Dick Smith is on a monthly basis, consistent with that achieved under David Jones management, adjusted for range extensions into accessories.

Gross profit

FY2014 pro forma gross profit is forecast to increase by 1.4% to $307.8 million with pro forma gross profit margin increasing 140bps from 23.7% in FY2013 to 25.1% in the FY2014 pro forma forecast. The increase in FY2014 pro forma forecast gross profit arises from a number of factors including:

- improved stock management practices;
- revamped range and mix of brands and products, and increased focus on mobility;
- renegotiated supplier agreements (e.g. pricing and terms);
- development of new pricing and promotional practices in collaboration with suppliers;
- optimisation of freight movements; and
- opening of a new Hong Kong direct sourcing office and retendering of sourcing costs.

These initiatives have increased 1Q2014 gross profit margin to 25.0%, which is already broadly in line with the FY2014 forecast of 25.1%.

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5. Financial Information

Cost of doing business

The pro forma cost of doing business is forecast to decline by 15.8% to $236.0 million and decrease as a percentage of sales from 21.9% in FY2013 to 19.2% in the FY2014 pro forma forecast. The decrease in pro forma cost of doing business both as an absolute amount and as a percentage of pro forma sales arises from a number of factors including:

- investment in new staff training and implementation of new staff rostering processes;
- development of a new marketing program with increased frequency and effectiveness;
- implementation of a new staff incentive model linked to new KPI dashboards;
- development of strong alliances with major landlords;
- streamlining and right sizing of the distribution centre network; and
- renegotiation of all key contracts and procurement agreements.

The transformation initiatives outlined above and discussed elsewhere in this Prospectus were implemented over the course of FY2013 such that they are included in 1Q2014 and the benefits are assumed to continue through the remainder of the forecast period, adjusted for seasonality as outlined below.

As outlined in Section 5.4, Dick Smith's 1Q2014 pro forma cost of doing business was $56.7 million and 20.8% as a percentage of sales over the same period. 1Q2014 pro forma cost of doing business of $56.7 million compares with $236.0 million forecast in FY2014. The cost of doing business is expected to increase in 2Q2014 relating predominantly to higher wage expenses in association with increased December sales.

The FY2014 pro forma forecast also takes into account the estimated additional administrative expenses of $2.6 million associated with the running of Dick Smith as a publicly listed company.

Depreciation and amortisation

The FY2014 forecast depreciation expense is based on existing rates of depreciation following the Acquisition in November 2012, adjusted for planned capital expenditure during FY2014.

Depreciation rates are based on the estimated useful lives of assets which are not expected to change during the forecast period. See Section 11 for a description of the Company's accounting policies relating to useful lives for property, plant and equipment.

Depreciation and amortisation expense represents approximately 1.1% of sales which the Directors believe is in line with industry benchmarks.

Net interest expense

Pro forma net interest expense for FY2014 is forecast to be $1.4 million based on forecast drawn amounts of debt under the terms of the New Facility described in Section 5.14 and deposits held. Establishment fees of $0.2 million associated with the New Facility have been included in the pro forma FY2014 forecast net interest expense. Establishment fees associated with the New Facility will be amortised over the three year term of the New Facility.

Taxation

The forecast income tax expense is based on the corporate tax rates of 30.0% and 28.0% in Australia and New Zealand respectively. The Company's pro forma effective tax rate is expected to be 30.1% in FY2014 which is due to the non-deductible costs associated with the management long term incentive plan (which is described in Section 7.2.3) which are reflected in the Forecast Financial Information.

Cash tax payments for the forecast year reflect the expected tax instalments in FY2014 based on a percentage of revenue ratio advised by the Australian Taxation Office. Income tax payments in New Zealand are based on prior year tax calculations plus the budgeted increase in profit.

Capital expenditure

Capital expenditure is forecast to be $18.3 million for FY2014 as allocated in the table below. Forecast growth capital expenditure includes spending on new store openings and the fit out and purchase of fixtures and fittings as a part of the new David Jones Electronics Powered by Dick Smith stores. Forecast maintenance capital expenditure includes spending relating to ongoing IT projects, store maintenance and general maintenance expenditure.

5.11.3.1 Table: FY2014 capital expenditure

Year ending 29 June, $ million	Pro forma forecast FY2014
Growth capital expenditure	11.2
Maintenance capital expenditure	7.1
Total	**18.3**

In FY2011 and FY2012, a substantial program of capital expenditure was undertaken by Dick Smith's previous owner as part of its store refurbishment program. As a result of this program, approximately 78% of the Dick Smith branded stores have either been newly opened or refurbished in the last five years. Management believes that FY2014 pro forma forecasts are more reflective of the ongoing capital expenditure requirements of the business going forward.

Working capital

Month-by-month working capital requirements vary considerably across the financial year, primarily due to the build-up in inventory required prior to the Christmas trading period and other sales periods. Intra-month net working capital balances may also vary considerably. Net working capital typically decreases as the month progresses due to the build up of trade payables and sale of inventory throughout the month. However, this decrease continues up until payments to creditors, which typically occur around the last day of the calendar month, leading to an increase in net working capital. The movement in the net working capital balance in FY2014, as reflected in the pro forma forecast cash flow, is based on the expectation of a net increase in working capital with this increase driven by a forecast increase in inventory, partially offset by a forecast improvement in creditor terms.

Foreign exchange

Dick Smith is exposed to exchange rate movements, in particular movements in the A$/NZ$, A$/US$ and NZ$/US$ rate. The movements in exchange rates impact on the amounts paid for purchases and the translation of account balances in Dick Smith's New Zealand operations. The Forecast Financial Information assumes an average A$/NZ$ exchange rate of NZ$1.22 for the translation of Dick Smith's New Zealand operations. Dick Smith's exposure to transactional movements in foreign exchange rates is reduced by its hedging policy which hedges a minimum of 80% of Australian dollar exposure for confirmed US dollar purchases up to three months in advance. In addition, between 30% and 70% of US dollar forecast purchases that are not yet ordered for between three and six months in advance are hedged. Should management wish to conduct hedging activities outside of the policy in the best interests of the Company, it may do so with the approval of the Finance and Audit Committee. Approximately 81% of forecast and confirmed US$ purchases for the six months to 30 March 2014 were hedged as at 29 September 2013. The Forecast Financial Information assumes these hedges remain in place and that there are no material movements in the prevailing A$/US$ exchange rate during the forecast period.

A summary of Dick Smith's foreign exchange hedging policy is set out in Section 5.15.

5.12 Sensitivity analysis

The Forecast Financial Information included in this Prospectus is based on a number of estimates and assumptions as described in Section 5.11. These estimates and assumptions are subject to business, economic, and competitive uncertainties and contingencies, many of which are beyond the control of Dick Smith, the Directors and management. These estimates are also based on assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of the pro forma forecast results to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown. For the purpose of this analysis, each sensitivity variable is presented in terms of the impact of each on FY2014 pro forma forecast EBITDA of $71.8 million, taking into account the achieved 1Q2014 result and the Company's current foreign exchange hedge position.

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5.12.1.1 Table: Sensitivity analysis of pro forma forecast EBITDA for the year ending 29 June 2014

Assumption	Increase/ (decrease)	FY2014 pro forma EBITDA Impact ($ million)[1]
Change in pro forma sales	1.0% / (1.0)%	2.4 / (2.4)
Change in gross profit margin	10bps / (10)bps	1.0 / (1.0)
Change in salaries and wages expense	1.0% / (1.0)%	(0.6) / 0.6
Change in A$/US$[2]	1 cent / (1) cent	0.3 / (0.3)
Change in A$/NZ$	1 cent / (1) cent	(0.1) / 0.1
Store opening delay (one store)	3 months	(0.1)

1 The impact of each sensitivity variable on FY2014 pro forma forecast EBITDA takes into account the result achieved in 1Q2014. The impact of each variable is based on the balance of FY2014 EBITDA only.

2 The estimated impact takes into account the Company's hedged position as at 29 September 2013. As such, the impact of a change in the A$/US$ foreign exchange rate on FY2014 pro forma forecast EBITDA is based on the forecast purchases for the balance of FY2014 which were unhedged as at 29 September 2013 (see Section 5.15 for an overview of Dick Smith's foreign exchange hedging policy).

Care should be taken in interpreting each sensitivity. The estimated impact of changes in each of the assumptions has been calculated in isolation from changes in other assumptions, in order to illustrate the likely impact on the pro forma forecast results. In practice, changes in assumptions may offset each other or be additive, and it is likely that management would respond to any adverse change in one item to seek to minimise the net effect on Dick Smith's EBITDA and cash flow.

5.13 Capitalisation and indebtedness

The table below sets out the capitalisation and indebtedness for Dick Smith as at 30 June 2013 before, and pro forma adjusted for completion of the Offer.

5.13.1.1 Table: Capitalisation and indebtedness before completion of the Offer and pro forma adjusted for completion of the Offer

As at 30 June 2013 ($ million)	Note	Before completion of the Offer	Pro forma for completion of the Offer
Cash	1	(46.5)	(13.0)
Current debt		–	–
Non-current debt	1	–	26.5
Net total indebtedness	1	**(46.5)**	**13.5**
Total equity	1	**156.5**	**116.5**
Total capitalisation and indebtedness	1	**110.0**	**130.0**

1 See Section 5.5 for detail of pro forma adjustments relating to Dick Smith's statutory and pro forma consolidated balance sheet as at 30 June 2013.

As at 29 September 2013, the outstanding balance of bank guarantees and trade letters of credit was $34.8 million. The balance of letters of credit was high due to the seasonality of Dick Smith's operations. Dick Smith had begun acquiring higher levels of inventory from suppliers in anticipation of the Christmas trading period in December, which in turn increased the balance of letters of credit. Management expects that the balance of letters of credit will be no greater than approximately $15 million by 31 January 2014.

5.14 Description of the New Facility

Dick Smith entered into a facility agreement with GE Commercial Corporation (Australia) Pty Ltd and GE Commercial Finance NZ (together, the "Lender") on 26 November 2012 under which revolving facilities have been provided since that date. Dick Smith has agreed to enter into an amendment and restatement deed with the Lender to amend and restate that facility agreement on 22 October 2013. Under the amended facility agreement, the Lender will make available an aggregate amount of A$75 million under a revolving working capital facility ("New Facility"), which will reduce to A$65 million effective from 1 February 2014. The New Facility has a term of three years from the date the New Facility becomes effective (which is expected to occur immediately following completion of the Offer). Drawings under the New Facility may be made in AUD and NZD. The New Facility will be supported by guarantees from Dick Smith and most of its subsidiaries and all assets security granted by each of those entities, as well as an equitable mortgage of securities granted by the

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Company. Funding provided under the New Facility will be utilised to refinance the existing borrowings of Dick Smith under the existing facility agreement and for ongoing working capital and general corporate purposes. A portion of the New Facility will be used to provide letters of credit and guarantees.

The amount available to be drawn under the facility depends on the level of eligible inventories and receivables in the business at the relevant time and the application by the Lender of certain specified reserves.

The interest rate under the New Facility will be a variable rate based on the Bank Bill Swap Rate (BBSY) (in respect of AUD drawings) and the Bank Bill Rate (BKBM) (in respect of NZD drawings) plus a margin determined by reference to the calculated Leverage Ratio (see Section 5.14.3) at each respective reporting period of Dick Smith under the amended facility agreement.

5.14.1 Conditions precedent, representations, warranties and undertakings

The availability of funding under the New Facility relating to the first drawing is conditional on the completion of the Offer (among other legal, documentary and mechanical conditions precedent).

The agreement for the New Facility contains representations, warranties and undertakings typical for facilities of this nature including affirmative and negative covenants, reporting covenants, indemnification provisions and events of default.

5.14.2 Security

The New Facility will be supported by guarantees from Dick Smith and most of its subsidiaries and all assets security granted by each of those entities as well as an equitable mortgage of securities granted by the Company.

5.14.3 Financial covenants

The undertakings include financial undertakings which will be tested at financial year end and quarterly based on the preceding 12 month period. Dick Smith expects to remain in compliance with these undertakings.

5.14.3.1 Table: Financial undertakings under the New Facility

Financial undertakings	Note	Required ratio
Adjusted Leverage Ratio	1	■ Less than 6.00x at all times from the date of the New Facility to 31 December 2013 (inclusive) ■ Less than 5.25x at all times from 1 January 2014 to 31 March 2014 (inclusive) ■ Less than 4.80x at all times from 1 April 2014 to 30 June 2014 (inclusive) ■ Less than 5.00x at all times for the financial year ending 30 June 2015 ■ Less than 4.75x at all times for the financial year ending 30 June 2016
Leverage Ratio	2	Less than 2.5x at all times
Fixed Charge Cover Ratio	3	Not less than 1.25x at all times

1 **Adjusted Leverage Ratio** – Calculated as: (Total debt + (annual rent expense x 8)) ÷ EBITDAR (earnings before interest, tax, depreciation, amortisation and rent).

2 **Leverage Ratio** – Calculated as: Total debt ÷ EBITDA.

3 **Fixed Charge Cover Ratio** – Calculated as: EBITDAR ÷ (net interest expense + fees and principal repayments in relation to finance debt + rent expense).

Dick Smith must also ensure that there are no amounts drawn under the revolving inventory facilities for a period of not less than five consecutive calendar days in each financial year. This covenant may be satisfied if in respect of any five consecutive calendar days in a financial year, Dick Smith has cash in a bank account in an amount exceeding the amounts outstanding. Dick Smith must also provide evidence to the Lender, on or prior to the first week of January 2014, that it has A$30 million of headroom under the facility (and/or cash in this amount).

Management believes that the financial covenants are appropriate and will be complied with in FY2014 based on the FY2014 forecasts and the significantly transformed performance of Dick Smith in FY2014 relative to that of FY2013.

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The Lender may undertake (or engage a third party to undertake) appraisals of the assets of the obligors at a cost to Dick Smith, but only once every 18 months in respect of real property or plant and equipment, or once every 12 months in respect of inventories, unless an event of default or potential event of default has occurred and is subsisting.

These undertakings will be tested on a quarterly basis.

5.14.4 Liquidity and capital resources

Following completion of the Offer, Dick Smith's principal sources of funds will be cash flow from operations and borrowings under the New Facility.

Dick Smith's capital expenditure relates to the store roll out program and other general maintenance expenditure as outlined in Section 5.11.3.

Dick Smith expects that it will have sufficient cash flow from operations to meet its operational requirements and business needs during the forecast period. Dick Smith expects that its operating cash flows, together with borrowings under the New Facility, will position Dick Smith to grow its business in accordance with the Forecast Financial Information.

5.15 Foreign exchange hedging policy

A proportion of Dick Smith's payments for inventory are made in foreign currency, primarily US dollars. Therefore, movements in foreign exchange rates, particularly the A$/US$ rate and the NZ$/US$ rate, have an impact on Dick Smith's financial performance.

US dollar denominated payments totalled approximately US$145 million for FY2013 and are expected to total approximately US$126 million in FY2014. These amounts represent less than 15% of purchases in both pro forma historical FY2013 and pro forma forecast FY2014.

In order to limit its exposure to sudden changes in the cost of internationally sourced inventory, Dick Smith enters foreign exchange contracts as a part of its hedging policy. Under the policy, a minimum of 80% of Australian dollar exposure is hedged for confirmed US dollar purchases up to three months in advance. In addition, between 30% and 70% of US dollar forecast purchases that are not yet ordered for between three and six months in advance are hedged. Should management wish to conduct hedging activities outside of the policy in the best interests of the Company, it may do so with the approval of the Finance and Audit committee.

Approximately 81% of forecast and confirmed US$ purchases for the six months to 30 March 2014 were hedged as at 29 September 2013.

Dick Smith does not intend to hedge the translational impact of A$/NZ$ exposures. See Section 5.12 for an estimate of the impact of a one cent increase or decrease in the A$/US$ exchange rate or the A$/NZ$ exchange rate on Dick Smith's FY2014 pro forma forecast EBITDA.

5.16 Commitments

5.16.1 Lease commitments

The majority of Dick Smith's lease commitments relate to operating commitments for its retail stores. The increase in lease commitments from $276.6 million as at 30 June 2013 to $283.0 million as at 29 September 2013 is associated with new store commitments, lease renewals and commitments in relation to David Jones Electronics Powered by Dick Smith operations and partially offset by lease payments made.

Dick Smith's operating lease commitments are presented in the table below:

5.16.1.1 Table: Lease commitments as at 30 June 2013 and 29 September 2013

$ million	As at 30 June 2013	As at 29 September 2013
Within one year	63.1	67.0
Later than one year but not later than five years	174.0	179.9
Later than five years	39.5	36.0
Total	**276.6**	**283.0**

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5.16.2 Capital commitments

The majority of Dick Smith's capital commitments relate to the fit out and purchase of fixtures and fittings as a part of rolling out new Dick Smith branded stores and David Jones Electronics Powered by Dick Smith stores, and ongoing IT projects, store maintenance and general maintenance expenditure. Dick Smith's capital expenditure commitments totalled approximately less than $0.1 million at 30 June 2013 and $2.9 million at 29 September 2013.

5.17 Dividend policy

The Directors' current intention is to pay out approximately 60% to 70% of the Company's annual pro forma net profit after tax in respect of the period from completion of the Offer to 29 June 2014 (and of the Company's annual net profit after tax in subsequent financial years) in dividends. It is intended that dividends will be franked to the fullest extent possible.

It is the Board's current intention to pay a dividend in October 2014 in respect of the period from the completion of the Offer to 29 June 2014.

Thereafter, it is the Board's intention to pay interim dividends in respect of the first half of the financial years and final dividends in respect of the full financial years. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October.

The FY2014 pro forma annualised forecast dividend yield is expected to be 4.6% to 5.5% based on the target dividend payout ratio range of 60% to 70% and the Offer Price.

The payment of dividends by the Company, if any, is at the complete discretion of the Directors. The decision as to whether or not a dividend will be paid is subject to a number of considerations including the general business environment, the operating results and financial position of Dick Smith, capital requirements, regulatory restrictions and any other factors the Directors may consider relevant.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.

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Risks

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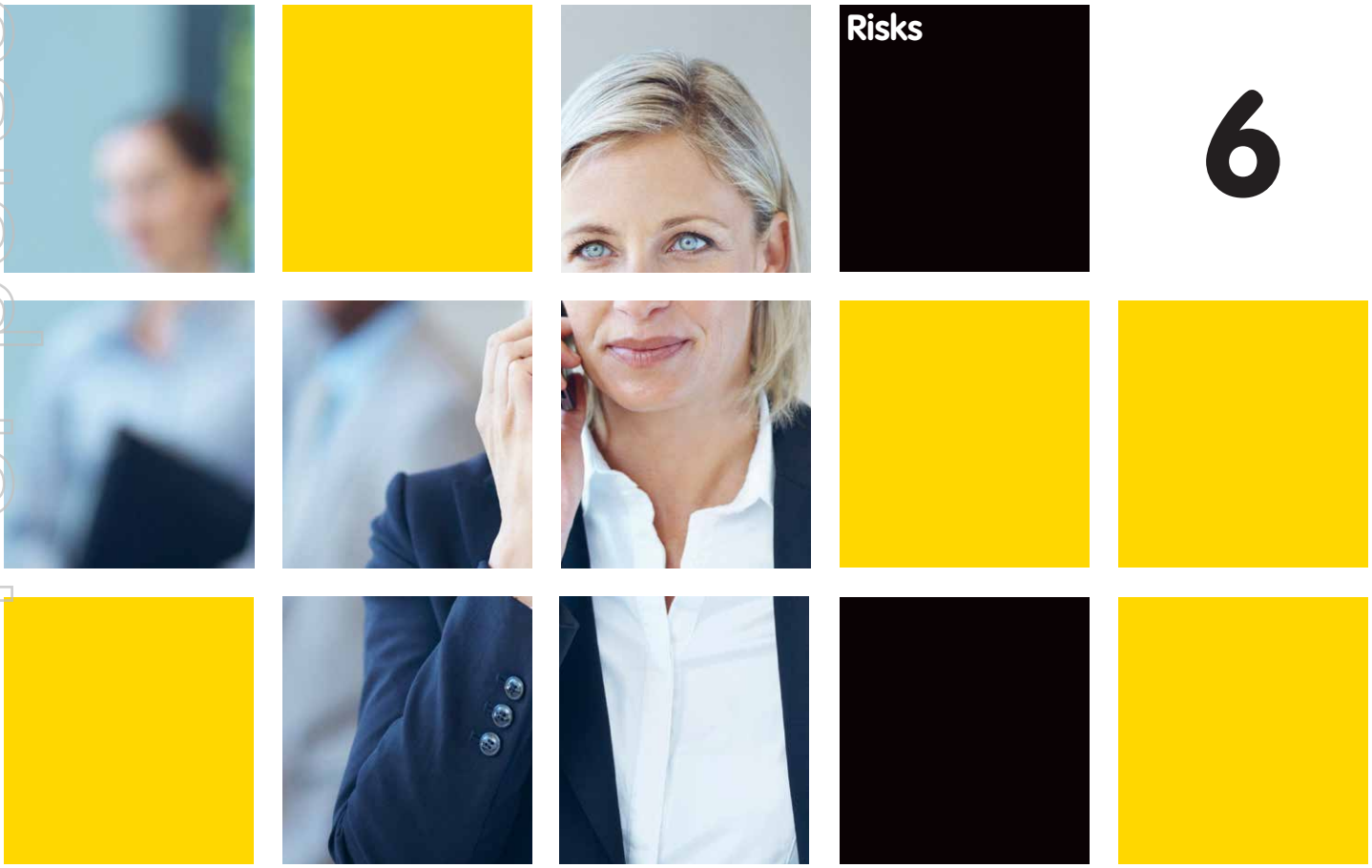

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6. Risks

6.1 Introduction

This Section 6 describes some of the potential risks associated with Dick Smith's business and the industry in which it operates, and the risks associated with an investment in Shares. It does not purport to list every risk that may be associated with Dick Smith's business or the industry in which it operates, or an investment in 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 Dick Smith, its Directors and the senior management team.

The selection of risks included in this Section 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 Prospectus Date, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters and should consider if Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in Shares, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest.

6.2 Risks specific to an investment in Dick Smith

6.2.1 Retail environment and general economic conditions in Australia and New Zealand may worsen

As many of Dick Smith's products are viewed by consumers to be 'discretionary' items rather than 'necessities', Dick Smith's financial performance is sensitive to the current state of, and future changes in, the retail environment in Australia and New Zealand.

As a consequence, investors in Dick Smith should be aware that the Australian and New Zealand retail environment in which Dick Smith operates has experienced challenging conditions due to lower consumer sentiment and retail demand as well as price deflation. This has arisen as a result of factors such as general uncertainty about Australian and international economic conditions, political uncertainty and subdued consumer sentiment in the aftermath of the global financial crisis.

Australian and New Zealand economic conditions may worsen which could cause the retail environment to deteriorate as consumers reduce their level of consumption of discretionary items. In addition, the consumer electronics market may experience further periods of price deflation in certain categories and input prices may be impacted by the devaluation of the Australian dollar. Should any of these risks occur, they are likely to have an adverse impact on Dick Smith's future financial performance.

6.2.2 Loss of key management personnel

Dick Smith's success depends to a significant extent on its key personnel, in particular, Nick Abboud and the rest of his management team discussed in Section 7. Nick Abboud and these individuals have extensive experience in, and knowledge of, Dick Smith's business and the retail industry. In particular, Nick Abboud and the management team have been responsible for the development of and the execution of the transformation strategy and its ongoing benefits. The loss of key management personnel, or any delay in their replacement, may therefore adversely affect Dick Smith's future financial performance.

6.2.3 Competition may increase

The Australian and New Zealand consumer electronics industry in which Dick Smith operates is highly competitive, has relatively low barriers to entry and is subject to ever changing customer preferences. Dick Smith's competitors include other Australian and New Zealand consumer electronics businesses, vertically integrated direct-to-market retailers, online retailers, local independent retailers and international retailers. Competition is based on a variety of factors including merchandise selection, price, parallel importing, international price harmonisation, advertising, new stores, store location, store appearance, product presentation and customer service.

Dick Smith's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors or a failure by Dick Smith to successfully respond to changes in the industry. In addition, a step change increase in competition from online or significant technological changes may impact Dick Smith's competitive position. Any deterioration in Dick Smith's competitive position may have an adverse effect on Dick Smith's future financial performance.

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6.2.4 Customer preferences may change

Dick Smith's revenues are almost entirely generated from consumer electronics related products which are subject to sometimes unpredictable changes in customer preferences. As a consequence, failure by Dick Smith to predict or respond to any such changes could adversely impact Dick Smith's future financial performance.

A large number of products sold by Dick Smith are manufactured internationally which means that any significant delay between ordering and delivery further exposes Dick Smith to the risk that customer preferences may change between the time products are ordered and the time they are available for purchase. If Dick Smith misjudges customer preferences or fails to convert market trends into appealing product offerings on a timely basis, these may result in lower revenue and margins and could adversely impact Dick Smith's future financial performance. In addition, any change in customer preferences may lead to increased obsolete inventory risk.

6.2.5 Rate of technology change

Technology changes could drive a change in the level of demand for consumer electronics products. The rate of technology changes, such as a lower rate of new product development, could adversely impact Dick Smith's future financial performance.

Rapid changes in technology are changing the products demanded by customers in the segments in which Dick Smith operates. While many of these technological changes are providing the growth opportunities discussed in this Prospectus, there is a risk that competitors will introduce technologies that provide them with a competitive advantage relative to Dick Smith. Further, any rapid technology changes may lead to increased obsolete inventory risk if change results in a shift in customer preferences for certain products and may impact the prices that Dick Smith's customers are willing to pay for products because of the likelihood of obsolescence. In addition, as the success of Dick Smith is dependent on the frequency of its key product suppliers introducing appealing new products, there is a risk that if the rate of product or technological innovation of these key product suppliers slows, that consumer demand for Dick Smith's future product offerings will be less.

6.2.6 The transformation and growth initiatives might not meet their objectives

Since the Acquisition, Dick Smith has implemented a number of significant operational, process and cultural initiatives which have positioned Dick Smith for ongoing future growth and reduced its cost base. Accordingly, there is a risk that the benefits of these initiatives may be subject to delays, costs may overrun or the initiatives may not generate the sustainable sales or profit growth anticipated. Further, the implementation of these initiatives will result in changes to Dick Smith's product mix and the consumer shopping experience, which may result in unintended adverse consequences if such changes do not match customer preferences.

Dick Smith's future success is dependent in part on its ability to develop and execute appropriate strategies. Dick Smith's current strategy, which includes transformational changes to store design and product offerings, recent new store concepts, revitalised online customer experiences and omni-channel approach, revitalised employee training, incentive structures and partnerships with key product suppliers, may not be successful in part or at all. In addition, achieving the stated objectives within a satisfactory period of time may be challenging and it is possible that such timelines will not be achieved either generally or in particular cases. If any of the key strategies being implemented within Dick Smith are ineffective or are achieved later than expected, Dick Smith's future financial performance could be adversely affected.

In addition, the implementation of the transformation and growth initiatives began later in New Zealand than in Australia. There is therefore a greater chance that the aforementioned risks will negatively impact the New Zealand operations.

6.2.7 Brand names may diminish in reputation and value

The Dick Smith portfolio of brand names and related intellectual property are key assets of the business. The reputation and value associated with these brands and related intellectual property could be adversely impacted by a number of factors including failure to provide customers with the quality of product and service standards they expect, disputes or litigation with third parties such as employees, suppliers and customers, failure to adequately protect Dick Smith's intellectual property or adverse media (including social media) coverage. Significant erosion in the reputation of, or value associated with, these brands could have an adverse effect on customer loyalty, relationships with key suppliers, employee retention rates and demand for Dick Smith's private label products, all of which could adversely affect Dick Smith's future financial performance.

6.2.8 Relationships with suppliers may deteriorate

Dick Smith's ability to offer a wide variety of brands in its stores is a key contributor to the appeal of its stores to customers. The loss or deterioration of Dick Smith's relationships with key brand owners, service providers or suppliers, or an inability to renew contractual arrangements with such parties or negotiate agreements with new parties on terms which are not materially less favourable than existing arrangements, is likely to have an adverse effect on Dick Smith's future financial performance.

6.2.9 Ability to attract and retain staff may decrease

Dick Smith's business is dependent on attracting and retaining a large number of quality employees. Dick Smith's ability to meet its labour needs while controlling costs associated with hiring and training employees is subject to external factors such as unemployment rates, prevailing wage legislation and changing demographics. Changes that adversely impact Dick Smith's ability to attract and retain quality employees could adversely affect Dick Smith's future financial performance.

6.2.10 New store roll out program may not meet its objectives

Dick Smith's growth strategy includes the planned roll out of additional stores. Dick Smith's ability to successfully open new stores on schedule may be affected by factors including delays, cost overruns and disputes with landlords. Any delay or failure to open new stores could have an adverse effect on Dick Smith's future financial performance.

There is a risk that new stores opened by Dick Smith may be unprofitable because they are not supported by a sufficient market or are not adequately staffed or managed. There is also a risk that any such new stores may reduce revenues of existing stores to a greater or lesser extent than predicted or may incur establishment costs that are greater than budgeted for.

6.2.11 Relationships with landlords may deteriorate

Dick Smith currently has 359 stores across Australia and New Zealand and two distribution centres. Dick Smith leases its stores from a number of landlords. The leases typically contain a range of restrictions on Dick Smith's activities at the relevant premises (such as restrictions on effecting structural changes or sub-leasing or licensing more than a limited amount of space to concession operators without landlord consent), which may restrict Dick Smith's operating flexibility. The leases have a range of terms and option periods, although they are generally leases which Dick Smith cannot readily terminate.

Any default under a lease by Dick Smith (which, under a large number of leases, would be triggered if Dick Smith does not satisfy its obligations under the relevant change of control provisions that may be triggered upon completion of the Offer), or failure to renew existing leases on acceptable terms or an inability to negotiate alternative arrangements, could materially adversely affect Dick Smith's ability to operate stores in preferred locations, which may have an adverse effect on Dick Smith's future financial performance. In addition, there is a risk that Dick Smith may become subject to lease terms which are less favourable due to unanticipated changes in the property market or if one or more stores do not achieve the financial performance anticipated at the time of entering into the relevant leases.

6.2.12 Disruption to product sourcing

Dick Smith sources a large proportion of its products from domestic subsidiaries of foreign suppliers. As a result, Dick Smith is exposed to risks including political instability, increased security requirements for foreign goods, costs and delays in international shipping arrangements, imposition of taxes and other charges as well as restrictions on imports, exchange rate and hedging risks. Dick Smith is also exposed to risks related to labour practices, environmental matters, disruptions to production and ability to supply, and other issues in the foreign jurisdictions where suppliers operate. Any of these risks, individually or collectively, could materially adversely affect Dick Smith's future financial performance.

6.2.13 Interruption to operations

Dick Smith may be exposed to short, medium or long term interruptions to its operations and its suppliers' operations arising from events including but not limited to industrial disputes, electricity interruptions, work stoppages, acts of terrorism, fires, floods, earthquakes, and other disasters, any of which could (and particularly if such interruption occurred in Dick Smith's key trading periods) adversely affect Dick Smith's future financial performance.

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6.2.14 Interruption to management systems

The effective and efficient operation of Dick Smith's business is dependent on a number of management information systems. Dick Smith relies heavily on its management information systems to manage all key aspects of its business, such as demand forecasting, purchasing, supply chain management, point-of-sale processing, omni-channel offering, staff planning and deployment, marketing and advertising, financial management and safeguarding of critical and sensitive information. The failure of Dick Smith's management systems to perform as anticipated or to meet the continually evolving needs of its business, could significantly disrupt its business and cause, for example, higher costs or reduced sales (or both) thereby adversely affecting Dick Smith's future financial performance.

In addition, Dick Smith maintains a database of confidential customer information. The failure of Dick Smith to maintain the confidentiality of its customer database could cause significant operational, reputational, legal and cost ramifications for Dick Smith, any of which could adversely affect Dick Smith's future financial performance.

6.2.15 Exposure to product recall and warranty obligations

Dick Smith provides a number of private label products sourced from a range of suppliers. Associated with these products are various recall and warranty obligations. Any significant product recall or warranty obligation may result in a warranty cost that is borne by Dick Smith, net of insurance and other recoverable costs. Further, under the retail brand management agreement with David Jones, Dick Smith assumes all warranty claims made in respect of products sold under this agreement. Dick Smith's potential exposure to such claims is not quantifiable and there is a risk that it could be material.

6.2.16 Supplier termination rights

Any default under an agreement with a supplier by Dick Smith (which, under a number of agreements, would be triggered if Dick Smith does not satisfy its obligations under the relevant change of control provisions) could adversely affect Dick Smith's ability to maintain its product range, which may have an adverse effect on Dick Smith's future financial performance.

A number of agreements with suppliers considered key to Dick Smith contain a clause allowing the supplier to terminate its agreement with Dick Smith for no cause at any time, some with as little as 30 days' written notice. If any such supplier chooses to exercise this right to terminate for convenience, Dick Smith may not be able to find a replacement supplier for the relevant product lines in a timely manner.

6.2.17 Regulation and litigation

There is a risk that regulation is introduced that restricts interactions with consumers, trading hours, sales tactics, and marketing campaign efforts. Such changes could impact the normal operations of Dick Smith and reduce Dick Smith's ability to generate revenue which may have an adverse effect on Dick Smith's future financial performance or position.

Dick Smith may be the subject of complaints or litigation by customers, suppliers, government agencies or other third parties. Such matters may have an adverse affect on Dick Smith's reputation, divert its financial and management resources from more beneficial uses, or have a material adverse effect on Dick Smith's future financial performance or position.

Dick Smith is exposed to litigation risk in the jurisdictions in which it operates, for instance under the applicable consumer protection regimes. While this is not currently a material issue, there is the potential for one or more claims that are material in cumulative quantum to occur, with the result that costs are increased or the brand is damaged.

6.2.18 Adverse movements in exchange rates

Dick Smith is exposed to exchange rate movements, in particular movements in the A$/NZ$ rate, A$/US$ rate and NZ$/US$ rate. Because a proportion of Dick Smith's payments for inventory are made in foreign currency, primarily US dollars, movements in exchange rates impact on the amounts paid for purchases. Also, because a proportion of Dick Smith's revenues and profits are earned in New Zealand, movements in exchange rates impact on the translation of account balances in Dick Smith's New Zealand operations. Therefore, movements in foreign exchange rates, particularly the A$/US$ rate and the NZ$/US$ rate, may have an impact on Dick Smith's future financial performance.

6.2.19 Industrial disputes and wage increases

Certain Dick Smith employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may arise in the course of such renegotiations which may lead to strikes or other forms of industrial action that could disrupt Dick Smith's operations. Further, any such renegotiation could result in increased labour costs for Dick Smith. In times of low unemployment or shortage of skilled employees, there can be upward pressure on wages. If any of these events occur, it may adversely impact Dick Smith's future financial performance.

6.2.20 Workplace health and safety

Dick Smith's employees are at risk of workplace accidents and incidents. In the event that a Dick Smith employee is injured in the course of their employment, Dick Smith may be liable for penalties or damages. This risk has the potential to harm both the reputation and future financial performance of Dick Smith.

6.3 General risks to an investment in Dick Smith

6.3.1 Price of Shares

Once Dick Smith becomes a publicly listed company on ASX, it will become subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in its Share price that are not explained by the fundamental operations and activities of Dick Smith.

The price at which Shares are quoted on ASX may increase or decrease due to a number of factors. These factors 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 commencement of quotation on ASX, even if Dick Smith's earnings increase.

Some of the factors which may affect the price of the Shares include fluctuations in the domestic and international market for listed securities, general economic conditions, including interest rates, inflation rates, exchange rates, consumer sentiment, commodity and oil prices, changes to government fiscal, monetary or regulatory policies and settings, changes in legislation or regulation, inclusion in or removal from market indices, the nature of the markets in which Dick Smith operates and general operational and business risks.

6.3.2 Trading and liquidity in Shares and Anchorage's holding

There can be no guarantee that an active market in the Shares will develop. There may be relatively few potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid for their Shares under the Offer.

Following Listing, it is expected that Anchorage will hold 20.0% of the Shares, which will also impact on liquidity. Anchorage (in addition to the Management Shareholders) will enter into voluntary escrow arrangements in relation to all of their Shares applying from the date of the Company's admission to the Official List to the date that the Company's audited financial accounts for FY2014 are released to ASX and, other than in the case of Anchorage, in relation to some of their Shares applying from the date of the Company's admission to the Official List to the date that the Company's audited financial accounts for FY2015 are released to ASX, in each case, subject to certain exceptions set out in more detail in Section 8.9. The absence of any sale of Shares by Anchorage and the other 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. It is important to recognise that Shareholders may receive a market price for their Shares that is less than the price that they paid.

Following release from escrow, Shares held by Anchorage will be able to be freely traded on ASX. A significant sale of Shares by Anchorage, or the perception that such sales have occurred or might occur, could adversely affect the price of Shares. Anchorage's Shareholding may also allow it to exert significant influence over the outcome of matters relating to the Company, including the election of Directors and approval of transactions. The interests of Anchorage may be different from the interests of investors who purchase Shares in the Offer.

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6.3.3 Shareholder dilution

In the future, Dick Smith may elect to issue Shares or other securities. While the Company will be subject to the constraints of the Listing Rules regarding the issue of Shares or other securities, Shareholders may be diluted as a result of such issues of Shares or other securities.

6.3.4 Changes in tax rules or their interpretation

Changes in tax law (including goods and services taxes and stamp duties), or changes in the way taxation laws are interpreted may impact the tax liabilities of the Company or the tax treatment of a Shareholder's investment. In particular, both the level and basis of taxation may change. In addition, an investment in the Shares involves tax considerations which may differ for each Shareholder. Each prospective Shareholder is encouraged to seek professional tax advice in connection with any investment in Dick Smith.

6.3.5 Government and regulatory factors

Government or regulatory policies may change, which could have an impact on the Australian and New Zealand economic environment, retail market conditions, the consumer electronics sector or Dick Smith's operations. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of Dick Smith.

6.3.6 Accounting standards

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of Dick Smith and its Directors. Any changes to the accounting standards or to the interpretation of those standards may have an adverse effect on the reported financial performance or financial position of Dick Smith.

6.3.7 Interest rate fluctuations

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect Dick Smith's costs of servicing these borrowings which may adversely affect its financial position.

6.3.8 Ability to refinance debt or access debt markets on attractive terms

Dick Smith is subject to the risk that it may not be able to refinance its existing or future bank facilities when they fall due or that the terms available to Dick Smith on refinancing will not be as favourable as the terms of its existing or future bank facilities.

6.3.9 Force majeure events

Events may occur within or outside Australia or New Zealand that could impact upon the global, Australian and New Zealand economies, the operations of Dick Smith and the price of the Shares. The events include, but are not limited to, acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Dick Smith's product offering and services and its ability to conduct business.

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6. Risks

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Key people, interests and benefits

7

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7. Key people, interests and benefits

7.1 Board of Directors and management

The Board and management team have been selected for their extensive relevant experience and expertise. The Directors bring to the Board a variety of skills and experience, including industry and business knowledge, financial management, accounting, legal, operational and corporate governance experience.

Following the Acquisition, Nick Abboud was appointed as Managing Director and CEO. Nick Abboud, with the support of other members of the Dick Smith Sub board and the existing management team, undertook a review of the management team structure and as a result of this review, eight new members of senior management were appointed to complement the existing management team. This new Dick Smith management team, led by Nick Abboud, has extensive retail, leadership and transformation experience. The management team has been instrumental in leading the transformation of Dick Smith since the Acquisition with the support of some of the members of the Board.

7.1.1 Board of Directors

Director	Expertise, experience and qualifications
 **Phillip Cave AM** Non-executive Chairman Age: 64 *Member of the Remuneration Committee*	Phil was appointed non-executive Chairman of the Company on its formation and was non-executive Chairman of Dick Smith Sub from November 2012. Phil is a Founding Partner and Chairman of Anchorage Capital Partners, a turnaround and special situations private equity firm. He is Chairman of the Bisalloy Steel Group Limited, and of the not-for-profit organisations Ability First Australia and Wesley Institute. Phil is also director of Acrow Formwork & Scaffolding Pty Limited, Total Eden Pty Limited and First Engineering Limited. His experience combines a mixture of operational management expertise across a wide variety of industries with an in-depth knowledge of finance and banking. This includes a track record of over 25 years of successful turnaround investments including Sunbeam Victa Holdings Limited, Wormald International Limited, PayConnect Solutions Limited, Atlas Group Holdings Limited, Omni Plastics Holdings Pte Ltd, Golden Circle Limited and Antares Restaurant Group Limited (parent company of Burger King New Zealand). Prior to embarking on his turnaround investment career, Phil was an Executive Director of Macquarie Bank. Phil was appointed a Member of the Order of Australia in 2007 for service to the community, particularly through the provision of support services to children and young adults with disabilities, and to business as a company director. Phil holds a Bachelor of Business (Commerce) from the University of Technology, Sydney and is a Fellow of Certified Practising Accountants Australia.
 **Nicholas Abboud** Managing Director and CEO Age: 43	Nick was appointed Managing Director and CEO of the Company on its formation and was Managing Director and CEO of Dick Smith Sub from November 2012. Prior to his current role, Nick held various roles over a 19 year period with Myer. Most recently Nick was Executive General Manager of National Store Operations leading a team of approximately 12,000 people. Nick was responsible for Myer's property portfolio, store operations from conceptualisation to delivery of operational strategies, budgeting, scheduling and rostering and the effective integration of the marketing, buying and stores objectives. Prior to this, Nick was Director of Retail Stores at Myer, managing the regional management team and the execution of the strategy. In these roles, his leadership and innovation were integral to the turnaround of Myer. Nick has spent 25 years in retail and is a highly regarded senior executive within the Australian retail industry. He has extensive experience and a consistent track record of performance within retail operations and turnaround situations, and has strong analytical and strategic experience. Nick is focused on people, with a strong belief in reward and recognition and a high performance culture.

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7. Key people, interests and benefits

Director	Expertise, experience and qualifications
 **William Wavish** Independent non-executive Director Age: 65 *Chair of the Finance and Audit Committee*	Bill was appointed as an Independent non-executive Director of the Company on its formation and was a non-executive Director of Dick Smith Sub from November 2012. Bill is currently Chairman of Bendon Limited and has over 30 years of experience covering retail, property development, acquisitions, consulting, manufacturing and fast moving consumer goods. He has held a range of director positions and executive and senior management roles in companies operating in Australia, New Zealand and Hong Kong. Bill was Finance Director then Supermarkets Director of Woolworths Limited, Executive Chairman of Myer Pty Ltd, Chief Operating Officer of Dairy Farm Group North Asia and Chief Finance Officer at Arnott's Biscuits Limited and Campbell Soup Company Asia Pacific. Bill is well known in the retail and finance industries as a specialist in retail turnarounds, most notably with Woolworths Limited and more recently at Myer. Bill is actively involved in charities and research as a director of Australian Age of Dinosaurs Limited, Chairman of National Indigenous Culinary Institute and advisor to the Juvenile Diabetes Research Foundation. He is also actively involved in sports as Chairman of the New Zealand Warriors, shareholder in the Sydney Kings and Patron of the Trans-Tasman Business Circle – Sports Connect. He was previously Chairman and a shareholder of the Newcastle Falcons Pty Ltd and Sydney Kings and Secretary of the Hong Kong Race Horse Owners Association Limited. Bill is a Fellow of the New Zealand Institute of Chartered Accountants (retired).
 **Lorna Raine** Independent non-executive Director Age: 43 *Chair of the Remuneration Committee* *Member of the Finance and Audit Committee*	Lorna was appointed as an Independent non-executive Director of the Company on its formation. Lorna is a Senior Finance Executive at Fairfax Media Limited. In her most recent role as Chief Financial Officer of the Metro Media division at Fairfax Media Limited, Lorna was intimately involved in cost reduction initiatives as well as further commercialisation of Fairfax Media Limited's online assets. Prior to this, Lorna held senior management roles with Yum! Restaurants International (Australia) including General Manager Operations – KFC, KFC Market Manager (NSW), Chief Financial Officer and Strategic Planning Director. Lorna has significant experience across finance and audit in a multi-store and online environment, and as General Manager Operations – KFC, Lorna was responsible for the operations of approximately 700 stores across Australia and New Zealand. Before relocating to Australia, Lorna was Chief Financial Officer for McDonald's South Africa where she was instrumental in the formulation and execution of the McDonald's Corporation strategic plan including the implementation of best practice in reporting and analysis through its period of rapid expansion. Lorna holds a Bachelor of Commerce, as well as a post-graduate degree, majoring in accountancy and auditing, from the University of Johannesburg. She is a member of the Institute of Chartered Accountants in Australia.

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7. Key people, interests and benefits

Director	Expertise, experience and qualifications
Robert Ishak Independent non-executive Director Age: 37 *Member of the Finance and Audit Committee* *Member of the Remuneration Committee*	Robert was appointed as an Independent non-executive Director of the Company on its formation. Robert is Chairman, Principal and co-founder of international law firm William Roberts Lawyers. Robert's areas of practice are corporate and commercial law advice and litigation and he regularly acts for and advises some of Australia's largest corporate institutions. Robert is responsible for key practice areas at William Roberts Lawyers which include directors' duties, management liability and banking and finance litigation. Robert has invested time in teaching final year law students at the University of Western Sydney in the areas of corporations law and commercial law. Robert is on the NSW Starlight Star Ball Committee and has done pro-bono work for a number of charities. Robert holds a Bachelor of Commerce (Accounting) and a Masters in Law from the University of Western Sydney. Robert is a Notary Public and is admitted to the Supreme Court of New South Wales and the High Court of Australia.

The composition of the Board committees and details of its key corporate governance policies are set out in Section 7.3.

Each Director above has confirmed to the Company that he or she anticipates being available to perform his or her duties as a Director 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 reflects an appropriate range of independence, skills and experience for the Company after Listing.

7.1.2 Management

Executive	Expertise, experience and qualifications
Nicholas Abboud Managing Director and CEO Age: 43	See 7.1.1 for details.
Michael Potts Chief Financial Officer and Company Secretary Age: 46	Michael joined Dick Smith in September 2013 and is the Chief Financial Officer and Company Secretary. Prior to Dick Smith, Michael was the Chief Financial Officer and Company Secretary of Nick Scali Limited and has more than 20 years of experience in senior finance roles with major retail companies, including the Sussan Group, Bunnings and Myer. Michael is responsible for the financial management of Dick Smith, investor relations, IT, corporate affairs and company secretarial matters. Michael has a Bachelor of Commerce, majoring in accounting with a sub major in law from the University of Western Sydney and is a member of Certified Practising Accountants Australia.

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7. Key people, interests and benefits

Executive	Expertise, experience and qualifications
 **Armando Pedruco** Director of Operations Age: 38	Armando joined Dick Smith in June 1996 and was appointed Director of Operations in November 2012. Having started as a salesperson in Darwin and working his way through the ranks of the Operations division, he progressed to management and was appointed to National Operations Manager in 2008. Armando has led the Dick Smith operations team through major business transformations including store labour efficiency programs, rebranding, refurbishment of more than 200 stores and the divestment by Woolworths of Dick Smith. In his role as Director of Operations, Armando is responsible for all aspects of store operations across Australia and New Zealand. In 2010, Armando was awarded AFR/Boss Young Executive of the Year.
 **Neil Merola** Director of Buying and Marketing Age: 52	Neil joined Dick Smith in November 2012 and is the Director of Buying and Marketing and is responsible for overseeing the buying and marketing strategy and the Hong Kong direct sourcing office. Neil is an experienced retailer with more than 30 years of retail and wholesale experience across both private and publicly listed companies, including more than 20 years with Myer in roles such as Business Manager Commercial Services, General Manager Electronics Buying, Regional Sales Manager and Store Manager. Also, Neil has consulted to various businesses in the retail, consumer goods and other service industries providing strategic and business development advice.
 **John Skellern** Director of Property, Procurement and Supply Chain Age: 49	John joined Dick Smith in November 2012 as Director of Property, Procurement and Supply Chain and is responsible for all aspects of Dick Smith's logistics, CODB, merchandise rebates and new and existing property portfolio. Prior to Dick Smith, John was part of the senior management team at Myer, serving for six years as a General Manager in a variety of roles, most recently in the areas of procurement, insurance, and financial and commercial services and also spent seven years at Woolworths including leading risk, safety and insurance. Previous to this, he worked in the hotel industry as a management consultant. John has also consulted to private equity firms on acquisitions, due diligence and issues of separation and integration. John holds a Bachelor of Human Movement Science from University of Technology, Sydney and a Masters in Finance and a Master of Business Administration from Macquarie Graduate School of Management.
 **Marcella Davis** Director of Human Resources Age: 35	Marcella joined Dick Smith in May 2009 as Human Resources Manager before being appointed to Director of Human Resources in November 2012. Prior to Dick Smith, Marcella had more than 12 years of experience at Woolworths in Senior Human Resources Manager roles across the Supermarkets and Corporate divisions. Marcella is responsible for all aspects of Dick Smith's people and culture strategy, including communications and engagement, organisational design and change, policy and remuneration management and learning and development. Marcella holds a Bachelor of Commerce, majoring in Human Resources and Industrial Relations from the University of Western Sydney.

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7. Key people, interests and benefits

Executive	Expertise, experience and qualifications
 **Steven Toth** Director of Omni-channel and Mobility Age: 53	Steve joined Dick Smith in March 2013 as Director of Mobility and was appointed Director of Omni-channel and Mobility in September 2013. Steve is primarily responsible for omni-channel and mobility across Dick Smith's Australia and New Zealand operations. Prior to Dick Smith, he was the Sales Director for amaysim Australia Pty Limited, being instrumental in its launch and penetration into Australia. He also held positions with Vodafone and was Chief Executive Officer with Leading Edge NZ. Steve has been consulting to businesses in the telecommunications industry for many years across Australia and New Zealand and has deep expertise in managing the commercial relationships with carriers. Steve has more than 30 years of management experience (the last 20 years at senior executive levels) and an extensive insight into retail and franchising. Steve had previously held roles at Dick Smith as National Operations Manager from 1993 to 1997.
 **George Papacosta** Director of Buying Operations Age: 40	George joined Dick Smith in November 2012 and is the Director of Buying Operations. Prior to Dick Smith, George spent more than eight years with Myer in various national and regional roles, most recently National Retail Development Manager of the Electrical division and National Operations Manager of the Entertainment division. George also has seven years of supplier experience in consumer electronics with key account management positions at Sony Australia and Sharp Corporation. George is responsible for all operational aspects in buying and merchandise planning. George holds a Bachelor of Commerce, majoring in Accounting with a sub major in Management from the University of Western Sydney.
 **Mario Cocciolone** Director of Strategic Alliances Age: 54	Mario joined Dick Smith in August 2013 as Director of Strategic Alliances, and is responsible for all aspects of the David Jones Electronics Powered by Dick Smith operations. Prior to Dick Smith, Mario held senior roles at Myer in store operations, including General Manager NSW Stores and NSW Operations Manager. He also held General Manager roles at Avana Cosmetic & Laser Clinics Australia and New Zealand and Nationwide Financial Services, and consulted to Dick Smith from January 2013 to August 2013. Mario holds a Bachelor of Business, majoring in Accounting from The University of Western Sydney and a Strategic Planning and Management Certificate in Retailing from Monash University.
 **Timothy Fawaz** Director of Finance Age: 47	Tim joined Dick Smith in October 2011 and is the Director of Finance and played a key role in the divestment by Woolworths of Dick Smith. Prior to joining Dick Smith, Tim held a number of senior finance and commercial roles at Metcash Limited, Stockland Property Group and Woolworths. Tim is responsible for the day-to-day financial management of Dick Smith and assists the Chief Financial Officer in company secretarial matters. Tim has a Bachelor of Business, majoring in accounting from Monash University and is a member of Certified Practising Accountants Australia.

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7. Key people, interests and benefits

Executive	Expertise, experience and qualifications
 **Michael Dykes** Director of Customer Strategy and Development Age: 43	Michael joined Dick Smith in May 2011 as Head of Store Design. In November 2012, he was appointed as Director of Omni-channel and Strategy and was then appointed Director of Customer Strategy and Development in September 2013. In this role, Michael is responsible for strategy, store design, merchandising and program office, as well as the start-up, customer proposition, store expansion and ongoing general management of the new Move store format. Prior to Dick Smith, Michael held a management board position with Best Buy Europe and various senior management positions with Dixons Group plc and B&Q plc. He has also spent time in the Middle East managing the Next brand across the region. His career in retail spans 25 years and covers most disciplines from operations, buying, marketing, strategy and design. Michael holds Certificates in Design and Business Management from Henley Business School.
 **Micah Gamman** Director of New Zealand Age: 38	Micah rejoined Dick Smith in February 2013 as Director of New Zealand and is responsible for all aspects of the business in New Zealand including operations, buying and marketing. Micah brings 19 years of retail experience across sales, operations, buying and merchandise with Dick Smith and Big W. His career with Dick Smith commenced in 1994 in New Zealand where his experience covered Store Manager roles and senior operations roles. In 2004, Micah moved into buying and was appointed as Merchandise Manager, first in New Zealand and then in Australia. In 2011, he moved to Big W as a Merchandise Manager before rejoining Dick Smith in his current role. Micah holds a Bachelor of Commerce, majoring in International Business, a Bachelor of Arts, majoring in Economics, and a Postgraduate Diploma in Business Administration from The University of Auckland.
 **Michael Johnson** Director of Commercial and Financial Services Age: 50	Michael joined Dick Smith in November 2012 as General Manager Commercial, and was appointed to Director of Commercial and Financial Services in April 2013. Michael has more than 25 years of experience in senior retail roles, stores, marketing, buying and retail operations with major companies, including Wesfarmers Insurance and Myer. Michael is responsible for financial management of the commercial sales team, financial services, gift cards and the Dick Smith affinity credit card products.

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7. Key people, interests and benefits

7.2 Interests and benefits

This Section 7.2 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- person named in this Prospectus as performing 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 (but not a sub-underwriter) to the Offer or a financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

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

- the formation or promotion of the Company;
- 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.

7.2.1 Interests of advisers

Dick Smith has engaged the following professional advisers:

- Goldman Sachs and Macquarie Capital have acted as Joint Lead Managers to the Offer. Dick Smith has paid, or agreed to pay, the Joint Lead Managers the fees described in Section 10.5 for these services;
- Minter Ellison has acted as Australian legal adviser in relation to the Offer. Dick Smith has paid, or agreed to pay, approximately $1,300,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Minter Ellison in accordance with its normal time-based charges;
- Minter Ellison Rudd Watts as New Zealand legal adviser in relation to the Offer. Dick Smith has paid, or agreed to pay, approximately $150,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Minter Ellison Rudd Watts in accordance with its normal time-based charges;
- Aquasia Pty Ltd has acted as adviser to the Board in relation to the Offer. Dick Smith has paid, or agreed to pay, a fee of 0.25% of the Company's enterprise value as at, and subject to, completion of the Offer and approximately $60,000 (each excluding disbursements and GST) for these services up until the Prospectus Date;
- Deloitte Corporate Finance Pty Limited has acted as Investigating Accountant and has prepared the Investigating Accountant's Report and has performed work in relation to due diligence enquiries. Dick Smith has paid, or agreed to pay, approximately $470,000 in total (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Deloitte Corporate Finance Pty Limited in accordance with its normal time-based charges;
- Ernst & Young has acted as tax adviser in relation to the Offer. The Company has paid, or agreed to pay, approximately $470,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Ernst & Young in accordance with its normal time-based charges.

These amounts and other expenses of the Offer will be paid by Dick Smith out of available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 8.1.

Certain funds affiliated with either Goldman Sachs or Macquarie Capital ("JLM Funds"), the Joint Lead Managers to the Offer, hold or have interests of 42.5% or 22.5%, respectively, in the Anchorage managed funds which are Existing Ordinary Owners prior to the Offer. Proceeds from the sale of Dick Smith Sub will be paid to such Anchorage managed funds and then will be distributed to investors in those funds which include the JLM Funds. Ultimately, some of the proceeds received by the JLM Funds may benefit Goldman Sachs or Macquarie.

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JBWere Limited and Macquarie Equities Limited have agreed to act as Co-Managers to the Offer. Each will be paid fees of 1.25% of the value of Shares allocated to clients of that Co-Manager. All amounts are payable by the Joint Lead Managers out of the fees payable to the Joint Lead Managers under the Underwriting Agreement.

7.2.2 Directors' interests and remuneration

7.2.2.1 Managing Director and CEO

Dick Smith Electronics Pty Limited has entered into an employment contract with Nick Abboud to govern Mr Abboud's employment with Dick Smith. Mr Abboud is employed in the position of Managing Director and CEO of Dick Smith. Refer to Section 7.2.3.1 for further details.

7.2.2.2 Non-executive Director remuneration

Under the Constitution, the Directors decide the total amount paid to all Directors as remuneration for their services as a Director. However, under the Listing Rules, the total amount paid to all non-executive Directors for their services must not exceed in aggregate in any financial year the amount fixed at the Company's general meeting. This amount has been fixed by the Company at $1 million per annum. For the remainder of FY2014, from the Prospectus Date, it is expected that the fees payable to the current Directors will not exceed $450,000 in aggregate. Annual Directors' fees currently agreed to be paid by the Company are $100,000 each.

In addition, the chair of the Finance and Audit Committee and the chair of the Remuneration Committee, will be paid $18,750 annually. Other committee members will receive $12,500 per annum for serving on the various committees of the Board. The remuneration of Directors must not include a commission on, or a percentage of, the profits or income of the Company. Superannuation payments are not included in these amounts.

The non-executive Directors are not entitled to participate in any employee incentive scheme (including the LTIP), but have indicated that they may elect to receive their fees in the form of Shares, subject to Shareholder approval and/or waiver of the Listing Rules. The number of Shares issued to Directors in respect of their fees will be calculated by dividing the amount of the fee payable to them by the volume weighed average price of the Shares on ASX in a period determined by the Board preceding their issue.

7.2.2.3 Remuneration of Directors

Phillip Cave (and other persons associated with him and Anchorage) is entitled to receive a proportion of the distributions from the sale of Dick Smith Sub. The entitlements to distributions may be determined by both reference to such persons being direct or indirect investors in the Anchorage managed funds which are Existing Ordinary Owners and through profit share arrangements relating to the returns of those Anchorage funds as a whole.

William Wavish, Robert Ishak and Lorna Raine, directors of the Company, were also engaged as consultants to the Company in October 2013 to assist in preparing for the Offer. Their respective total remuneration for these services up to Listing will amount to approximately $115,000 each.

7.2.2.4 Deeds of access, insurance and indemnity for Directors

The Company has entered into deeds of indemnity, insurance and access with each Director which confirm each Director's right of access to certain books and records of Dick Smith for a period of seven years after the Director ceases to hold office. This seven year period may be extended where certain proceedings or investigations commence before that seven year period expires.

Pursuant to the Constitution, the Company may indemnify Directors and employees, past and present, against liabilities allowed under law. Under the deeds of indemnity, insurance and access, the Company indemnifies each Director against all liabilities to another person that may arise from their position as a director 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.

Pursuant to the Constitution, the Company may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law. Under the deed of indemnity, insurance and access, the Company must obtain such insurance during each Director's period of office and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven year period expires.

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7. Key people, interests and benefits

7.2.2.5 Other information

Directors may also be reimbursed for travel and other expenses reasonably incurred in attending to Dick Smith's affairs. Non-executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as director of the Company or a subsidiary. There are no retirement benefit schemes for Directors, other than statutory superannuation contributions. The interests of Directors and management are set out in this Section 7.2.2.

7.2.2.6 Directors' shareholdings

Directors are not required under the Constitution to hold any Shares. On completion of the Offer, the number of Shares held by Directors will be as outlined in the table below:

	Dick Smith Sub Shares held prior to the Offer	Dick Smith Sub Shares held prior to the Offer (% of class)	Shares held at completion of the Offer[1]	Shares held at completion of the Offer (%)
Phil Cave[2]	–	–	1,181,818	0.5
Nick Abboud[3]	2,000,000 ordinary shares 5,000,000 A class preference shares	2% of ordinary shares 48.4% of A class preference shares	15,330,639	6.5
Bill Wavish[4]	2,500,000 B class preference shares	100% of B class preference shares	6,424,148	2.7
Lorna Raine[5]	–	–	45,455	0.0
Robert Ishak[6]	–	–	90,909	0.0

1 See Section 10.4.1 for details of the Sale Deed pursuant to which the Company will acquire all of the Dick Smith Sub Shares.

2 Phil Cave is a Founding Partner and Chairman of Anchorage. See Section 8.1.4 for details of Anchorage's holdings. Phil has advised the Company that InterB Investments Pty Ltd, as Trustee for the Cave Provident Fund, an entity that he controls, proposes to subscribe for Shares to the value of $2,600,000 at the Offer Price in the Chairman's List Offer.

3 These interests are held by LMA Investments, an entity controlled by the Company's Managing Director and CEO, Nick Abboud. See Sections 7.2.3.1 and 10.4.1 for further details. All of LMA Investments' Shares on completion of the Offer will be subject to voluntary escrow arrangements which are described further in Section 8.9.

4 The Baden Shareholder, which is associated with Bill Wavish, holds, as at the Prospectus Date, options over B class preference Dick Smith Sub Shares. This table assumes that all of these options will be exercised prior to Settlement, that the Sale Deed Offer is accepted in respect of the Dick Smith Sub Shares issued as a result of that exercise and that those Dick Smith Sub Shares will be acquired by the Company under the Sale Deed. Any Shares acquired by the Baden Shareholder will not be subject to escrow arrangements. See Section 10.4 for further details. Bill Wavish has also advised the Company that the Wavish Family Superannuation Fund, an entity that he controls, proposes to subscribe for Shares to the value of $2,000,000 at the Offer Price in the Chairman's List Offer.

5 Lorna Raine has advised the Company that she proposes to subscribe for Shares to the value of $100,000 at the Offer Price in the Chairman's List Offer.

6 Robert Ishak has advised the Company that he proposes to subscribe for Shares to the value of $200,000 at the Offer Price in the Chairman's List Offer.

Refer to Section 7.2.2.2 for further details of the non-executive Directors' fees being paid in Shares.

7.2.3 Management's interests and remuneration

7.2.3.1 Managing Director and CEO

Dick Smith Electronics Pty Limited has entered into an employment contract with Nick Abboud to document his employment with Dick Smith. Nick is the Managing Director and CEO. Nick will receive an annual fixed remuneration of $1,250,000 (inclusive of superannuation), representing approximately 33.3% of his maximum total achievable annual remuneration package. Nick will also be eligible to receive an annual cash-based short term incentive of up to $1,875,000, representing 50% of his maximum total achievable annual remuneration package, or such other amount as determined by the Board. Payment of a cash bonus will depend on Dick Smith's performance and Nick's achievement of certain KPIs, as determined by the Board.

Nick will also be eligible to participate in the LTIP. For further details about the LTIP, refer to Section 7.2.4.1. Dick Smith intends to grant up to $625,000 worth of options over Shares under the LTIP ("Options") to Nick at or shortly after the Listing. The Options granted will vest 30 months from the date of grant subject to satisfaction of performance criteria set by the Board. The key terms and conditions (including the exercise price, performance period and vesting conditions) applicable to the Options granted to Nick are set out in Section 7.2.4.2. It is intended that all future grants of Shares, Options or Rights under the LTIP will be made annually and that these will vest three years from issue or grant subject to satisfaction of performance criteria set by the Board.

Nick may terminate his employment contract by giving 12 months' notice in writing. Dick Smith Electronics Pty Limited may terminate by giving six months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Dick Smith Electronics Pty Limited may terminate Nick's employment contract immediately without notice.

Upon the termination of Nick's employment contract, he will be subject to a restraint of trade period of, in respect of working for or being involved with a competitor of Dick Smith, six months, and in respect of other matters such as solicitation, 12 months following expiry of the notice period. Enforceability of such restraint of trade is subject to all usual legal requirements.

As at the Prospectus Date, Nick held two million ordinary Dick Smith Sub Shares and five million A class preference Dick Smith Sub Shares. Under the Sale Deed, the Existing Ordinary Owners (which includes LMA Investments) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, LMA Investments has not accepted the Sale Deed Offer in respect of the ordinary Dick Smith Sub Shares it holds (although it has in respect of the A class preference Dick Smith Sub Shares it holds). However, this Prospectus assumes that LMA Investments will accept the Sale Deed Offer and that LMA Investments will elect to receive in Shares all of the consideration under the Sale Deed in respect of LMA Investments' holding of ordinary Dick Smith Sub Shares (and the Offer is conditional on this, among other things). If that assumption is correct, on completion of the Offer, LMA Investments will hold 6.5% of the Shares on issue. See Section 10.4 for further details.

Under the LMA Rights Forfeiture Deed, Anchorage has offered to pay LMA Investments $6 million in consideration for LMA Investments forfeiting its rights to receive consideration in the form of cash for its ordinary Dick Smith Sub Shares under the Sale Deed. See Section 10.4 for further details.

7.2.3.2 Other key management

Each other member of Dick Smith's management is employed under individual employment agreements. These establish total compensation including a base salary, superannuation contribution and incentive arrangements; variable notice and termination provisions of three months; confidentiality provisions; and leave entitlements, as a minimum, as per the National Employment Standards.

Either Dick Smith Electronics Pty Limited or the executive may terminate the relevant executive's employment by providing at least three months' notice in writing before the proposed date of termination or in Dick Smith Electronics Pty Limited's case, payment in lieu of notice.

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7.2.4 Employee incentive arrangements

Dick Smith has established various incentive arrangements to assist in the attraction, motivation and retention of management and employees of Dick Smith as set out below.

Briefly, the Board has determined that to align the interests of Dick Smith's executive team and the goals of Dick Smith, the remuneration packages of the Managing Director and CEO and the senior executives of Dick Smith should comprise of the following components:

- fixed annual cash reward (inclusive of superannuation and fringe benefits);
- cash-based short term incentives; and
- equity-based long term incentives.

Payment of cash under the short term incentives and the award of equity under long term incentives will be subject to the achievement of performance criteria or hurdles set by the Board.

The remuneration packages of the executive team are determined by the Remuneration Committee and reported to the Board. The remuneration of the executives will be reviewed annually by the Remuneration Committee. At the absolute discretion of the Remuneration Committee, Dick Smith may seek external advice on the appropriate level and structure of the remuneration packages of the executive team from time to time.

7.2.4.1 Long term incentive plan

Dick Smith has adopted the LTIP to encourage executives and employees to have a greater involvement in the achievement of Dick Smith's objectives. Under the LTIP, eligible employees (including executives, officers, employees and executive Directors) selected by the Board or the committee which has been delegated power by the Board to administer the LTIP may be offered Shares or granted Options or Rights.

Dick Smith may offer additional incentive schemes to the management and employees over time.

Eligibility

Eligibility to participate in the LTIP and the number of Shares, Options or Rights offered to each individual participant, will be determined by the Board. Non-executive Directors of Dick Smith are not permitted to participate in the LTIP.

Grants

Under the rules of the LTIP, Shares, Options and/or Rights may be offered or granted to eligible employees of Dick Smith from time to time, subject to the absolute discretion of the Board.

The Company intends that the maximum value of each offer will be determined as a percentage of the participant's total fixed remuneration ("TFR"). The percentages to be used are as follows:

- Managing Director and CEO – 50% of TFR;
- Level 1 executives – 40% of TFR;
- Level 2 executives – 30% of TFR; and
- eligible senior managers – up to 20% of TFR.

Offer of Shares, Options and Rights made to employees under the LTIP at or shortly after Listing will be made on the percentages set out above.

Terms and conditions

The Board has the absolute discretion to set the terms and conditions (including conditions in relation to vesting, disposal restrictions or forfeiture and any applicable exercise price) on which it will offer Shares or grant Options or Rights under the LTIP and may set different terms and conditions which apply to different participants in the LTIP. The Board will determine the procedure for offering Shares or granting Options or Rights (including the form, terms and content of any offer, invitation or acceptance procedure) in accordance with the rules of the LTIP.

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7. Key people, interests and benefits

Vesting conditions

Shares, Options and Rights will vest (and in the case of Options and Rights become exercisable) to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied (collectively the "Performance Criteria"). Performance Criteria may include conditions relating to continuous employment or service, the individual performance of the participant and/or Dick Smith's performance and the exercise price (if any) being less than the current market price of the underlying Share as at vesting. Typically, the Performance Criteria must be satisfied within a predetermined performance period. Both the Performance Criteria and the performance period are set by the Board at its absolute discretion.

The Board has set the performance period for the first grant of Options to executives on or about Listing, as 30 months, being the period from 1 January 2014 to 1 July 2016. Thereafter, it is intended that all subsequent offers of Shares, Options or Rights will have a performance period of three financial years commencing with the year in which an offer or grant is made under the LTIP.

Ranking of Shares

Shares issued (including Shares issued upon exercise of Options or Rights granted) under the LTIP will rank equally in all respects with the other issued Shares.

Rights attaching to unvested Shares

The Board may determine (as part of the terms and conditions applicable to an offer or grant of Shares, Options or Rights to a participant) whether the participant is entitled to:

- all dividends declared or paid on unvested Shares (and whether any such dividends are to be held in escrow until the Shares are fully vested);
- any bonus Shares which may accrue to unvested Shares (noting if the participant is entitled to the bonus Shares, any such bonus Shares issued will be deemed to be unvested Shares issued at the time the original unvested Shares were issued); and
- any other rights or entitlements which accrue to unvested Shares including voting rights (and deal with them accordingly).

Voting and dividend rights of Options and Rights

Options and Rights do not carry any voting or dividend rights. Shares issued or transferred to participants on exercise of an Option or Right carry the same rights and entitlements as other issued Shares, including voting and dividend rights.

Issue or acquisition of Shares

An offer of Shares or Shares allocated to participants upon the exercise of Options or Rights, may be issued by Dick Smith or acquired on or off market by Dick Smith or its nominee. Dick Smith may appoint a trustee to acquire and hold Shares, Options or Rights (including unvested Shares, Options or Rights) on behalf of participants or otherwise for the purposes of the LTIP.

Exercise of Options or Rights

A participant may exercise Options or Rights in respect of which the Board has given a vesting notice and which have not expired or been forfeited. To exercise an Option or Right, the participant must lodge with Dick Smith a signed notice of exercise and comply with any requirements under the rules of the LTIP or as specified by the Board.

Expiry of Options or Rights

Options and Rights which have not been exercised will expire if the applicable vesting conditions and any other conditions to exercise are not met during the prescribed performance period or if they are not exercised before the applicable expiry date. In addition, Options and Rights will lapse if the participant deals with the Options and Rights in breach of the rules of the LTIP or in the opinion of the Directors, a participant has acted fraudulently or dishonestly.

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7. Key people, interests and benefits

Vested Options or Rights

The Board intends that any vested Options or Rights held by a participant must be exercised within 12 months of the date the vesting conditions are satisfied (or such later date determined by the Board).

Quotation

Options and Rights will not be quoted on ASX. The Company will apply for official quotation of any Shares issued under the LTIP either upon the issue of unvested Shares or issue of Shares upon exercise of Options or Rights, in accordance with the Listing Rules.

Options exercise price

The Board may in its absolute discretion determine that a participant is required to pay an exercise price to exercise the Options offered or granted to that participant.

Approval

Grants of Shares, Options or Rights under the LTIP to an executive Director may be subject to the approval of Shareholders, to the extent required under the Listing Rules.

No hedging and no transfer

Without the prior approval of the Board, unvested Shares, or Options or Rights which have not been exercised, may not be sold, transferred, encumbered or otherwise dealt with. Further, participants cannot enter into any transaction, scheme or arrangement which hedges or otherwise affects the participant's economic exposure to the Shares, Options or Rights before they vest.

Capital limit

Subject to the rules of the LTIP, the Board must not offer Shares, Options or Rights if making the offer would breach the 5% capital limit on the issue of shares as set out in ASIC Class Order 03/184 in relation to employee share schemes or contravene the Corporations Act, Listing Rules or instruments of relief issued by ASIC from time to time.

Cessation of employment

The LTIP contains provisions concerning the treatment of vested and unvested Shares, Options or Rights in the event a participant ceases employment.

Takeover

Where there is a takeover bid made for Shares or a scheme of arrangement is proposed in relation to the Company, the Board may consider whether, and may in its absolute discretion determine that all or a part of the participant's unvested Shares, Options or Rights will become vested. In such circumstances, the Company must promptly notify each participant in writing that he or she may, within the period specified in the notice, exercise vested Options or Rights.

Capital reconstruction

If there are certain variations of the share capital of the Company including a capitalisation or rights issue, subdivision, consolidation or reduction in share capital, the Board may make such adjustments as it considers appropriate under the LTIP, in accordance with the provisions of the Listing Rules.

Costs and administration

Dick Smith must bear any costs incurred in the administration of the LTIP.

Other terms of the LTIP

The LTIP also contains customary and usual terms having regard to Australian law for dealing with administration, variation and termination of the LTIP.

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7. Key people, interests and benefits

7.2.4.2 Offer to Managing Director and CEO under the LTIP

Nick Abboud will be granted Options under the LTIP on the terms generally described above in Section 7.2.4.1 and as follows:

Grant date	On or around date of Listing.
Number and exercise price	$625,000 worth of Options, each with an exercise price (which will need to be paid by Nick Abboud to exercise any vested Options) equal to the Offer Price.
Consideration for grant	Nil.
Performance period	The 30 month period commencing 1 January 2014 and ending 1 July 2016.
Service condition on vesting	Managing Director and CEO to be employed by the Company or a subsidiary at the time of vesting.
Exercise period	1 July 2016 to 30 June 2017.
Vesting conditions	50% of the Options granted will vest subject to a relative total shareholder return ("TSR") performance hurdle over the performance period. The remaining 50% will vest subject to an earnings per share ("EPS") performance hurdle over the performance period. The Company's TSR from the date of Listing will be assessed against the relative performance of the constituent companies in the S&P/ASX 300 Index and the S&P/ASX 300 Consumer Discretionary Index (weighted 50% each) over the performance period. The relative TSR performance targets and corresponding vesting percentages are as follows: ■ below the 50th percentile TSR growth – 0%; ■ at the 50th percentile TSR growth – 50%; ■ between the 50th percentile and the 75th percentile TSR growth – pro-rata straight-line between 50% and 100%; and ■ above the 75th percentile TSR growth – 100%. The share price baseline for the TSR calculation will be calculated by reference to the volume weighted average price for the Shares from the date of Listing to 1 January 2014. The relative EPS performance targets (being the compound annual EPS growth over the performance period from 1 January 2014, adjusted to take into account one-off items associated with the Offer, if necessary) and corresponding vesting percentages are as follows: ■ less than 7.5% EPS growth – 0%; ■ at 7.5% EPS growth – 20%; ■ between 7.5% and 12.5% EPS growth – pro-rata straight-line between 20% and 100%; and ■ above 12.5% EPS growth – 100%. The Options will not vest unless at the time of satisfaction of all other performance criteria or hurdles, the volume weighted average price of Shares traded on ASX calculated over the last five trading days on which sales in the Shares are recorded, is 105% or more of the exercise price, or such other percentage as determined by the Board.

Other terms	If Nick Abboud is dismissed or resigns before the Options vest, all of the Options will be forfeited unless otherwise determined by the Board. If Nick Abboud's employment is terminated for any other reason, there will be a pro-rata forfeiture of Options and the unvested Options that remain on foot will be vested at the end of the vesting period. If there is a change in control, the Board will have the discretion to accelerate the vesting of some or all of the Options. When exercising its discretion, the Board will have regard to Nick Abboud's performance and the change in the Company's share price.

The Company has received in-principle confirmation from ASX that Listing Rule 10.14 does not apply to the above noted grant Options to Nick Abboud. Any future issues of Shares, Option or Rights under the LTIP will be the subject of Shareholder approval in accordance with the requirements of Listing Rule 10.14 (to the extent applicable).

7.2.4.3 Offers to selected senior executives under the LTIP

The Company proposes to issue, on or around the date of Listing, Options to selected senior executives under the LTIP. It is intended that the proposed offers of Options to the senior executives will be in accordance with terms generally described above in Section 7.2.4.1.

7.2.4.4 Short term incentives

The Board has determined that Dick Smith's current remuneration policy for its eligible employees include an annual incentive program, payments under which are subject to satisfaction of performance criteria set by the Board each year. Payment of short term incentives in any given year is conditional upon achievement of:

- performance criteria tailored to each respective role (if any); and
- Dick Smith's EBITDA performance.

As part of each eligible employee's performance assessment, achieving a balanced scorecard will be a condition to receipt of a payment under the short term incentive program.

The incentive payment of eligible employees who are Level 2 executives or above is calculated as a percentage of TFR and is payable in respect of each financial year as cash.

The short term incentive awards, expressed as a percentage of TFR, are as follows:

Position	Hit target pro forma EBITDA	Hit stretch pro forma EBITDA
Managing Director and CEO[1]	100% of TFR	150% of TFR
Level 1 executives[2]	50% of TFR	75% of TFR
Level 2 executives[2]	50% of TFR	75% of TFR
Other eligible employees	20% – 40% of base salary (excluding superannuation, any allowances or fringe benefits)	Nil

1 If pro forma EBITDA exceeds the 'target pro forma EBITDA' but is below 'stretch pro forma EBITDA', the short term incentive percentage of TFR will increase incrementally by 10% for every $2.0 million of additional pro forma EBITDA (so that, for example, if pro forma EBITDA of $82.8 million or $84.8 million were achieved, the short term incentive percentage of TFR would be 110% or 120%, respectively, and so on).

2 If pro forma EBITDA exceeds the 'target pro forma EBITDA' but is below 'stretch pro forma EBITDA', the short term incentive percentage of TFR will increase incrementally by 5% for every $2.0 million of additional pro forma EBITDA (so that, for example, if pro forma EBITDA of $82.8 million or $84.8 million were achieved, the short term incentive percentage of TFR would be 55% or 60%, respectively, and so on).

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In respect of FY2014, the Board has determined that the 'target pro forma EBITDA' for Dick Smith is $80.8 million (before payment of short term incentives) and the 'stretch pro forma EBITDA' for Dick Smith is $90.8 million (before payment of short term incentives). The maximum amount payable in short term incentives to eligible employees for FY2014 if the 'target pro forma EBITDA' is met is approximately $8.9 million and if the 'stretch pro forma EBITDA' is met is approximately $10.4 million. Accordingly, if Dick Smith's FY2014 EBITDA equals $80.8 million (before payment of short term incentives) and all eligible employees satisfy the other performance criteria and are paid their short term incentives, Dick Smith's FY2014 EBITDA will, after taking into account estimated other costs associated with the short term incentives (such as payroll taxes), be approximately $71.9 million. Similarly, if Dick Smith's FY2014 EBITDA equals $90.8 million (before payment of short term incentives) and all eligible employees satisfy the other performance criteria and are paid their short term incentives, Dick Smith's FY2014 EBITDA will, after taking into account other estimated costs associated with the short term incentives (such as payroll taxes), be approximately $80.3 million.

Cash payable on short term incentives will be paid to eligible employees who have satisfied the performance criteria in September, as to 70% of the entitlement, and in December, as to 30% of the entitlement, of the following financial year.

7.3 Corporate governance

This Section 7.3 explains how the Board will oversee the management of Dick Smith's business. The Board is responsible for the overall corporate governance of Dick Smith. The Board monitors the operational and financial position and performance of Dick Smith and oversees its business strategy, including approving the strategic goals of Dick Smith and considering and approving a business plan and an annual budget. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Dick Smith. In conducting business with these objectives in mind, the Board seeks to ensure that Dick Smith is properly managed to protect and enhance Shareholder interests, and that Dick Smith, and its directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Dick Smith, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Dick Smith's business and which are designed to promote the responsible management and conduct of Dick Smith.

The main policies and practices adopted by Dick Smith, which will take effect from Listing, are summarised below. In addition, many governance elements are contained in the Constitution. Dick Smith's code of conduct outlines the standards of conduct expected of Dick Smith's business and personnel in a range of circumstances. In particular, the code articulates the high standards of honesty, integrity, ethical and law abiding behaviour expected of Directors, management and employees. Details of Dick Smith's key policies and the charters for the Board and each of its committees will be available from Listing at www.dicksmith.com.au.

The Company is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The recommendations are not prescriptions, but guidelines. However, under the Listing Rules, the Company will be required to provide a statement in its annual report disclosing the extent to which it has followed the recommendations in the reporting period. Where the Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. Except as set out below, the Board does not anticipate that the Company will depart from the recommendations of the ASX Corporate Governance Council; however, it may do so in the future if it considers that such a departure would be reasonable.

The Board considers that each of Bill Wavish, Lorna Raine and Robert Ishak is an independent director, free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with the independent exercise of the Director's judgement and each is able to fulfil the role of an independent director for the purposes of the ASX Recommendations. None of these Directors is acting as nominees or representatives of any current or former shareholder of any Dick Smith entity, nor as nominees or representatives of the Joint Lead Managers or suppliers to Dick Smith.

Phil Cave and Nick Abboud are currently considered by the Board not to be independent. With regard to the indicators of independence set out in Box 2.1 of the ASX Recommendations, Phil is not considered independent given his position as Chairman of Anchorage. Nick Abboud is currently the Managing Director and CEO and therefore, not independent.

The Board acknowledges the ASX Recommendation that the chair should be an independent Director. In any event, the Board believes that such non-compliance is in the best interests of Dick Smith, particularly since the Board is confident that Phil brings objective judgement to the Board's deliberations and that Phil will make invaluable contributions to Dick Smith through his deep understanding of Dick Smith's business.

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7.3.1 Board charter and Board committees

7.3.1.1 Board charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the Board's 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 and serve the interests of Shareholders by overseeing and appraising Dick Smith's strategies, policies and performance;
- oversee Dick Smith, including its control and accountability systems;
- oversee the nomination and appointment, and monitor the performance, of Board members and senior management (and in particular, the Managing Director and CEO and the Chief Financial Officer and Company Secretary);
- conduct succession planning;
- 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 compliance to ensure appropriate compliance frameworks and controls are in place;
- monitor senior management's performance, implementing strategy and seeking to ensure appropriate resources are available;
- approve and monitor the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approve budgets;
- approve and monitor the operational and financial position and performance of Dick Smith and other reporting;
- identify the principal risks faced by Dick Smith and take reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks; and
- adopt appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards, including establishing procedures to ensure the financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements.

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

- appointment of the Chairman;
- appointment and removal of the Managing Director and CEO;
- appointment of Directors to fill a vacancy or as an additional Director;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- review of corporate codes of conduct;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling of meetings of Directors or Shareholders; and
- any other specific matters nominated by the Board from time to time.

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7. Key people, interests and benefits

The management function is conducted by, or under the supervision of, the Managing Director and CEO as directed by the Board (and by officers to whom the management function is properly delegated by the Managing Director and CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to access management and to request additional information at any time they consider it appropriate. The Board collectively, and individual Directors, may seek independent professional advice at Dick Smith's expense, subject to the reasonable approval of the Chairman of the Board and the advice received is made available to the Board as a whole.

7.3.1.2 Board committees

The Board may from time to time, establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Finance and Audit Committee and the Remuneration Committee. Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Dick Smith, relevant legislative and other requirements and the skills and experience of individual Directors.

Finance and Audit Committee

Under its charter, this committee must have at least three members, a majority of whom must be independent and all of whom must be non-executive Directors. Also, all members of this committee must be financially literate and have familiarity with financial and accounting matters and at least one member must be a qualified accountant or other financial professional with appropriate expertise of financial and accounting matters.

Currently, Bill Wavish, Lorna Raine and Robert Ishak are members of the Finance and Audit Committee, and Bill will act as chair of this committee. Each of them is financially literate and Bill and Lorna are qualified accountants.

The primary role of the Finance and Audit Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities including:

- engaging in the oversight of Dick Smith's financial reporting and disclosure processes and overseeing and reviewing the outputs of that process;
- assessing the appropriateness and application of Dick Smith's accounting policies and principles and any changes to them, so that they accord with the applicable financial reporting framework;
- assessing any significant estimates or judgements in Dick Smith's financial reports;
- reviewing all half yearly and annual reports with management, advisers, and the external auditors (as appropriate) and recommending the applicable accounts' adoption by the Board;
- overseeing the establishment and implementation of risk management and internal compliance and control systems and ensuring that there is a mechanism for assessing the ongoing efficacy of those systems;
- approving the terms of engagement with the external auditor at the beginning of each financial year;
- approving policies and procedures for appointing or removing an external auditor and for external audit engagement partner rotation; and
- meeting periodically with the external auditor and inviting them to attend committee meetings to assist the committee discharge its obligations.

Under the charter, it is the policy of Dick Smith that its external auditing firm must be independent of it. The committee will review and assess the independence of the external auditor on an annual basis.

Remuneration Committee

Under its charter, this committee must have at least three members, a majority of whom (including the chairman) must be independent Directors and all of whom must be non-executive Directors. Currently, Lorna Raine, Robert Ishak and Phil Cave are the members of this committee. Lorna will act as chair of this committee.

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7. Key people, interests and benefits

The primary role of the Remuneration Committee is to assist the Board with a view to discharging its responsibilities to Shareholders and other stakeholders to seek to ensure that Dick Smith:

- has coherent remuneration policies and practices which enable Dick Smith to attract and retain executives and Directors who will create value for Shareholders;
- fairly and responsibly remunerates Directors and executives, having regard to the performance of Dick Smith, the performance of the executives and the general remuneration environment;
- has policies to evaluate the performance of the Board, individual Directors and executives on (at least) an annual basis;
- has effective policies and procedures to attract, motivate and retain appropriately skilled and diverse persons to meet Dick Smith's needs; and
- will integrate human capital and organisational issues into the overall business strategy.

7.3.2 Risk management policy

The identification and proper management of Dick Smith's risks are an important priority of the Board. Dick Smith has adopted a risk management policy appropriate for its business. This policy highlights the risks relevant to Dick Smith's operations and Dick Smith's commitment to designing and implementing systems and methods appropriate to minimise and control its risks.

The Board is responsible for overseeing and approving risk management strategy and policies. The Board has responsibility for identifying major risk areas and implementing risk management systems. The Board is responsible for monitoring risk management and establishing procedures which seek to provide assurance that major business risks are identified, consistently assessed and appropriately addressed. The Board may delegate these functions to the Finance and Audit Committee or a separate risk committee in the future.

Dick Smith will regularly undertake reviews of its risk management procedures to ensure that it complies with its legal obligations, including to assist the Managing Director and CEO or Chief Financial Officer and Company Secretary to provide declarations required under section 295A of the Corporations Act.

Dick Smith has in place a system whereby management may be required to report as to its adherence to policies and guidelines approved by the Board for the management of risks.

7.3.3 Diversity policy

Dick Smith values a strong and diverse workforce and is committed to developing measurable objectives of diversity and inclusion in its workplace. Dick Smith has implemented a diversity policy, with meritocracy the guiding principle, which is overseen by the Board and which aligns Dick Smith's management systems with the commitment to develop a culture that values and achieves diversity in its workforce and on its Board. In its annual report, the Company will disclose the measurable objectives for achieving diversity and progress towards achieving them and will also disclose the proportion of women in the whole organisation, women in senior executive positions and women on the Board.

7.3.4 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 formal code of conduct, to take effect from the Company listing on ASX, to be followed by all employees and officers. The key aspects of this code are to:

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

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

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7.3.5 Disclosure policy

Once listed on ASX, the Company will be required to comply with the continuous disclosure requirements of the Listing Rules and the Corporations Act. Subject to the exceptions contained in the Listing Rules, the Company will be required to disclose to ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. The Company is committed to observing its disclosure obligations under the Listing Rules and the Corporations Act.

The Company has adopted a 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 Board will be responsible for managing the Company's compliance with its continuous disclosure obligations. Continuous disclosure announcements will also be made available on the Company's website at www.dicksmith.com.au.

7.3.6 Securities trading policy

Dick Smith has adopted a securities trading policy which will apply to the Company and its Directors, officers, employees and management, including those persons having authority and responsibility for planning, directing and controlling the activities of Dick Smith, whether directly or indirectly.

The policy is intended to explain the types of conduct in relation to dealings in Shares that is prohibited under the Corporations Act and establish procedures in relation to Directors, management or employees dealing in Shares.

Subject to certain exceptions, including exceptional financial circumstances or during a period in which the Company is subject to heightened disclosure requirements (e.g. during the offer period under a prospectus), the policy defines certain "trading windows" during which trading in Shares by the Company's directors, officers, employees and senior management is permitted, while trading at any other time is prohibited. Those trading windows are currently defined as the six week periods beginning at the open of trading on the day after the dates on which:

- the Company announces its half yearly results to ASX;
- the Company announces its full year results to ASX; and
- the Company holds its annual general meeting (assuming an update of the full year's results is given at the meeting),

and any additional periods determined by the Board from time to time.

Outside of these windows, Directors, management and employees must receive clearance for any proposed dealing in Shares. In all instances, buying or selling of Shares is not permitted at any time by any person who possesses price-sensitive information.

A copy of this securities trading policy will be available on Dick Smith's website at www.dicksmith.com.au.

7.3.7 Shareholder communications

The Board's aim is to ensure that Shareholders are provided with sufficient information to assess the performance of Dick Smith and that Shareholders are informed of all major developments affecting the affairs of Dick Smith in accordance with all applicable laws. The Company is required by law to communicate to Shareholders through the lodgement of all relevant financial and other information with ASX. The Company will also publish this information on Dick Smith's website at www.dicksmith.com.au.

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

7.3.8 Related party transactions

Other than as disclosed in this Prospectus, Dick Smith is not party to any material related party arrangements.

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Details of the Offer

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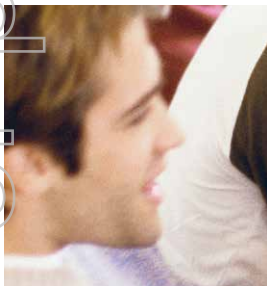

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8. Details of the Offer

8.1 Description of the Offer

This Prospectus relates to an invitation to subscribe for 156.6 million Shares at the Offer Price of $2.20 per Share.

On completion of the Offer and based on the Offer Price:

- 27.1 million Shares are expected to be held by Management Shareholders (including LMA Investments, an entity associated with Nick Abboud, with 15.3 million Shares);
- 5.5 million Shares are expected to be held by the Baden Shareholder[1]; and
- 47.3. million Shares are expected to be held by Anchorage,

and (other than the Shares held by the Baden Shareholder) will be subject to voluntary escrow agreements described in Section 8.9. All Shares on issue on completion of the Offer will rank equally with each other.

Successful applicants under the Offer will pay the Offer Price per Share.

The Offer comprises:

- the Retail Offer, consisting of the:
  - Broker Firm Offer, open to Australian and New Zealand resident Retail Investors who have received a firm allocation of Shares from their Broker (see Section 8.4);
  - Employee Award Offer of 300 Shares each for no consideration, open to Eligible Employees (see Section 8.3); and
  - Chairman's List Offer, open to selected investors in Australian and New Zealand who have received a Chairman's List Invitation (see Section 8.5); and
- the Institutional Offer, being an invitation to bid for Shares under the Bookbuild made to Institutional Investors in Australia and a number of other eligible jurisdictions (see Section 8.6).

The Offer is being extended to New Zealand investors under the mutual recognition regime applicable to public offers of securities in Australia and New Zealand.

The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Joint Lead Managers with the agreement of the Company, having regard to the allocation policy outlined in Sections 8.3, 8.4, 8.5 and 8.6.

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 10.5.

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

8.1.1 Purpose of the Offer

The purpose of the Offer is to:

- give Anchorage an opportunity to realise part of its investment in Dick Smith now that the major transformation initiatives have been implemented, given that Anchorage is a turnaround-focused private equity firm (Anchorage's retention of a 20.0% holding of Shares reflects its support in continuing to deliver the benefits of the transformation program and Anchorage's confidence in the Company's forecast financial performance). In particular, the Offer raises capital to fund the acquisition of Dick Smith Sub Shares by the Company from Anchorage under the Sale Deed[2];

1 Assuming that the Baden Shareholder exercises all of the options it holds over B class preference Dick Smith Sub Shares prior to Settlement, that the Sale Deed Offer is accepted in respect of the Dick Smith Sub Shares issued as a result of that exercise and that those Dick Smith Sub Shares will be acquired by the Company under the Sale Deed. See Section 8.1.4 for further details. Excludes Shares taken up under the Offer by entities associated with Bill Wavish. See Section 7.2.2.6.

2 The Company has offered to acquire all of the Dick Smith Sub Shares under the Sale Deed. Under the Sale Deed, the Existing Ordinary Owners (which includes Anchorage) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, Anchorage has not accepted the Sale Deed Offer. However, this Prospectus has been prepared on the assumption that Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer. The Offer is conditional on, among other things, Anchorage making such an election under the Sale Deed. See Sections 8.2 and 10.4.1 for further details of the conditions of the Offer and the terms of the Sale Deed, respectively.

- attract and retain high quality management by building Dick Smith's profile and reputation via listing, as well as to provide an ongoing measure of wealth through publicly listed equity;
- provide Dick Smith with access to the capital markets to improve capital management flexibility;
- provide the Dick Smith business with the benefits of an increased profile that arises from being a listed entity;
- assist Dick Smith in attracting and retaining quality staff;
- align the interests of management with those of shareholders through providing remuneration under broader equity-based incentive schemes, as well as through substantial and measurable Share ownership;
- provide Dick Smith with a wider loyalty benefit of customers that are invested in the Company; and
- provide a liquid market for the Shares.

8.1.2 Offer proceeds

The total gross proceeds of the Offer will be equal to the number of Shares issued under the Offer multiplied by the Offer Price. The total sources of funds under the Offer are expected to be $418.3 million, which will be applied to fund the acquisition of Dick Smith Sub and to pay the fees and expenses of the Offer.

8.1.3 Sources and uses of Offer proceeds

The following table details the sources and uses of the Offer Proceeds and other amounts.

Sources of funds under the Offer	$ million	%	Uses of funds under the Offer	$ million	%
Gross proceeds under the Offer	344.5	82.4	Payment to Anchorage[1] as cash consideration under the Sale Deed	358.1	85.6
Statutory cash as at 30 June 2013	46.5	11.1	Funds foregone by Anchorage to fund Employee Award Offer Shares	1.4	0.3
Drawdown of the New Facility	27.2	6.5	Costs of the Offer[2]	21.0	5.0
			Pro forma cash balance as at 30 June 2013	13.0	3.1
			Payment to Woolworths	24.0	5.7
			Establishment costs of the New Facility	0.7	0.2
Total sources	**418.3**	**100**	**Total uses**	**418.3**	**100**

1 The Company has offered to acquire all of the Dick Smith Sub Shares under the Sale Deed. Under the Sale Deed, the Existing Ordinary Owners (which includes Anchorage) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, Anchorage has not accepted the Sale Deed Offer. However, this Prospectus has been prepared on the assumption that Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer. The Offer is conditional on, among other things, Anchorage making such an election under the Sale Deed. See Sections 8.2 and 10.4.1 for further details of the conditions of the Offer and the terms of the Sale Deed, respectively.

2 The costs of the Offer will be funded from Dick Smith's existing cash balances or the draw down under the New Facility.

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8.1.4 Shareholders

The details of the ownership of Dick Smith Sub Shares as at the Prospectus Date and of the expected ownership of Shares on completion of the Offer are set out below:

	Dick Smith Sub Shares held prior to the Offer		Shares held at completion of the Offer[1]	
	Number	**% of class**	**Number**	**%**
Anchorage[2]	98,000,000 ordinary shares	98% of ordinary shares	47,302,273	20.0
LMA Investments[3]	2,000,000 ordinary shares 5,000,000 A class preference shares	2% of ordinary shares 48.4% of A class preference shares	15,330,639	6.5
Other Management Shareholders[4]	5,330,000 A class preference shares	51.6% of A class preference shares	11,758,101	5.0
Baden Shareholder[5]	2,500,000 B class preference shares	100% of B class preference shares	5,515,057	2.3
Investors in the Offer[6]	–	–	156,605,294	66.2
Total			**236,511,364**	**100%**

1 Excludes any Shares in which Directors or Management Shareholders may acquire an interest as part of the Offer at the Offer Price. See Section 10.4.1 for details of the Sale Deed pursuant to which the Company will acquire all of the Dick Smith Sub Shares.

2 Assumes Anchorage accepts the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and elects to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer.

3 Under the Sale Deed, the Existing Ordinary Owners (which includes LMA Investments) are entitled to receive consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares. As at the Prospectus Date, LMA Investments has not accepted the Sale Deed Offer in respect of the ordinary Dick Smith Sub Shares it holds (although it has in respect of the A class preference Dick Smith Sub Shares it holds). However, this table and Prospectus assume that LMA Investments will accept the Sale Deed Offer and that LMA Investments will elect to receive in Shares all of the consideration under the Sale Deed in respect of LMA Investments' holding of ordinary Dick Smith Sub Shares. The Offer is conditional on, among other things, LMA Investments accepting the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds and electing to receive all consideration payable to it under the Sale Deed in the form of Shares. All Shares issued to LMA Investments will be subject to voluntary escrow arrangements which are described further in Section 8.9.

4 Excludes LMA Investments (whose holdings are set out above). All Shares issued to other Management Shareholders will be subject to voluntary escrow arrangements which are described further in Section 8.9.

5 The Baden Shareholder, which is associated with Bill Wavish, holds, as at the Prospectus Date, options over B class preference Dick Smith Sub Shares. This table assumes that all of these options will be exercised prior to Settlement, that the Sale Deed Offer is accepted in respect of the B class preference Dick Smith Sub Shares issued as a result of that exercise and that those Dick Smith Sub Shares will be acquired by the Company under the Sale Deed. Any Shares acquired by the Baden Shareholder will not be subject to escrow arrangements. See Section 10.4 for further details. Excludes Shares taken up under the Offer by entities associated with Bill Wavish. See Section 7.2.2.6.

6 Includes Eligible Employees that accept the Employee Award Offer and Directors to the extent that they participate in the Chairman's List Offer (as to which, see Section 8.5).

8.1.5 Corporate, financial and other information about the Company

Details of the Company's formation, registration and tax status, along with information regarding Dick Smith's corporate structure and the acquisition from the Existing Owners, are set out at Section 10.

The Company's pro forma balance sheet as at 30 June 2013, including details of the pro forma adjustments, is set out in Section 5.

The Company's capitalisation and indebtedness as at 30 June 2013, before and following completion of the Offer, is set out in Section 5.

The Directors do not expect that any single Shareholder will control the Company on completion of the Offer (although, see Section 6.3.2 in relation to Anchorage's holdings following the Offer).

The Directors believe that, on completion of the Offer, the Company will have sufficient funds available to meet its stated business objectives.

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8. Details of the Offer

8.2 Summary of terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the Company).
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 8.13.
What is the consideration payable for each security being offered?	The Offer Price is $2.20 per Share. Successful applicants under the Offer will pay the Offer Price per Share.
What is the Offer period?	The key dates, including details of the Offer period, are set out in Section 1.1. No securities will be issued on the basis of this Prospectus later than the Expiry Date of 13 December 2014.
What are the cash proceeds to be raised?	$344.5 million is expected to be raised under the Offer based on the Offer Price.
What is the minimum application size under each component of the Retail Offer?	The minimum application size under the Broker Firm Offer is $2,000, and in multiples of $500 thereafter, as directed by the applicant's Broker. Under the Employee Award Offer, Eligible Employees will be offered the opportunity to apply for 300 Shares each for no consideration. The minimum application size under the Chairman's List Offer is $2,000, and in multiples of $500 thereafter. The Joint Lead Managers and the Company reserve the right to reject any application made under the Retail Offer or to allocate a lesser number of Shares than that applied for. In addition, the Company and the Joint Lead Managers reserve the right to aggregate any applications which they believe may be multiple applications from the same person or reject or scale back any applications (or aggregation of applications) in the Retail Offer which are for more than $100,000. There is no maximum value of Shares that may be applied for under the Retail Offer.

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8. Details of the Offer

Topic	Summary
What is the allocation policy?	The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Joint Lead Managers with the agreement of the Company, having regard to the allocation policy outlined in Sections 8.3, 8.4, 8.5 and 8.6. With respect to the Broker Firm Offer, it is a matter for the Brokers how they allocate Shares among eligible retail clients. For further information on the Broker Firm Offer, see Section 8.4. As noted above, all Eligible Employees will be offered the opportunity to apply for 300 Shares each for no consideration. For further information on the Employee Award Offer, refer to Section 8.3. For further information on the Chairman's List Offer, refer to Section 8.5. The allocation of Shares among applicants in the Institutional Offer will be determined by the Joint Lead Managers with the agreement of the Company. For further information on the Institutional Offer, refer to Section 8.6. The Company will announce the final allocation policy on the same Business Day as the close of the Institutional Offer. This information will be advertised in various newspapers, including The Australian, The Australian Financial Review, The Sydney Morning Herald and The Age newspapers. The publication of this announcement is expected to occur on Wednesday, 4 December 2013. Applicants under the Retail Offer will also be able to call the Dick Smith Offer Information Line on 1800 129 386 from within Australia or on +61 2 8767 1321 if eligible to participate in the Offer and calling from outside of Australia, from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only).
When will I receive confirmation whether my application has been successful?	It is expected that initial holding statements will be mailed by standard post on or about Wednesday, 11 December 2013. Refunds (without interest) to applicants who make an application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies, will be made as soon as practicable after settlement of the Offer.
Will the Shares be quoted?	The Company applied within seven days of the date of the Original Prospectus for admission to the Official List and quotation of the Shares on ASX under the code "DSH". Completion of the Offer is conditional on 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. The Company will be required to comply with the Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of Dick Smith or the Shares offered for subscription.

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8. Details of the Offer

Topic	Summary
Is the Offer conditional?	Yes. The contracts formed on acceptance of applications and confirmations of allocations of Shares will be conditional on: ■ ASX agreeing to admit the Company to the Official List and to quote the Shares; ■ LMA Investments accepting the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds, electing to receive all consideration payable to it under the Sale Deed in the form of Shares and agreeing to the escrow arrangements relating to it described in Section 8.9; ■ Anchorage accepting the Sale Deed Offer in respect of all of the ordinary Dick Smith Sub Shares it holds, electing to receive the consideration payable to it under the Sale Deed in the form of Shares to the extent necessary to provide it with 20.0% of the Shares on issue on completion of the Offer and agreeing to the escrow arrangements relating to it described in Section 8.9; ■ completion of the transaction contemplated by the Sale Deed; and ■ Settlement. Trades occurring on ASX before issue occurring will be conditional on the above matters occurring and the issue of Shares to successful applicants under the Offer.
When are the Shares expected to commence trading?	It is expected that trading of the Shares on ASX will commence on or about Wednesday, 4 December 2013, initially on a conditional and deferred settlement basis. Conditional trading will continue until the Company has advised ASX that the conditions described above have been satisfied. Trading will then be on an unconditional but deferred settlement basis until the Company has advised ASX that initial holding statements have been mailed to Shareholders. Normal settlement trading is expected to commence on or about Thursday, 12 December 2013. If settlement has not occurred within 10 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and all contracts arising on acceptance of the Offer and confirmations of allocations of Shares will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect. **It is the responsibility of each applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk.** The Company and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Dick Smith Offer Information Line, by a Broker or otherwise.
Is the Offer underwritten?	Yes. The Joint Lead Managers have fully underwritten the Offer. Details are provided in Section 10.5.
Are there any escrow arrangements?	Yes. Details are provided in Section 8.9.
Has any ASX waiver or ASIC relief been obtained or been relied on?	Yes. Details are provided in Section 8.11.

Topic	Summary
Are there any tax considerations?	Refer to Section 10.11.
Are there any 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 7.2.1 for details of various fees payable by the Company to the Joint Lead Managers and by the Joint Lead Managers to certain Brokers.
What should I do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or +61 2 8767 1321 (outside Australia) from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only) during the Offer period. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest.
New Zealand investors	This Offer is being extended to New Zealand investors under the mutual recognition regime applicable to public offers of securities in Australia and New Zealand. Any New Zealand investor considering this Prospectus should be aware that there are considerations particular to you. Some (but not all) of them are described throughout this Prospectus or referred to under the 'Important notices' including under 'Important information for New Zealand investors'. A copy of this Prospectus and other documents relating to the Offer have been, or will be, lodged with the New Zealand Companies Office under the mutual recognition regime.

8.3 Employee Award Offer

8.3.1 Who can apply

All Eligible Employees are entitled to participate in the Employee Award Offer. Eligible Employees are all permanent full-time and permanent part-time employees of Dick Smith in Australia and New Zealand who have been employed by Dick Smith for at least six months as at 5.00pm Sydney time on 13 November 2013 (provided that they remain so employed at 4 December 2013) that are not eligible to participate in the LTIP.

Eligible Employees will be offered the opportunity to apply for 300 Shares each for no consideration payable to the Company. The Employee Award Offer is, in effect, being funded by Anchorage.

A separate offer letter, together with access to this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Award Offer. Eligible Employees should read the separate offer letter and this Prospectus, carefully and in their entirety before deciding whether to apply under the Employee Award Offer, including Sections 10.11.7 and 10.12.9 of Australian and New Zealand tax issues for Australian and New Zealand tax resident Shareholders respectively who acquire Shares under the Employee Award Offer. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, tax adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

8.3.2 How to apply

A separate offer letter, together with access to this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Award Offer.

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8. Details of the Offer

8.4 Broker Firm Offer

8.4.1 Who can 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 or New Zealand. If you have been offered a firm allocation of Shares by a Broker, you will be treated as an applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

8.4.2 How to apply

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus or in its paper copy form which may be downloaded in its entirety from www.dicksmith.com.au. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Broker from whom you received your firm allocation of Shares. Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the Application Form.

By making an application, you declare that you were given access to this Prospectus (or any supplementary or replacement 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 minimum application under the Broker Firm Offer is $2,000 worth of Shares, and in multiples of $500 thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. However, the Company and the Joint Lead Managers reserve the right to aggregate any applications which they believe may be multiple applications from the same person or reject or scale back any applications (or aggregation of applications) in the Broker Firm Offer which are for more than $100,000. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions, in order to receive their firm allocation of Shares. Applicants under the Broker Firm Offer must not send their Application Forms to the Share Registry.

The Broker Firm Offer opens at 9.00am Sydney time on Friday, 22 November 2013 and is expected to close at 12.00pm on Monday, 2 December 2013. The Company and the Joint Lead Managers may elect to extend the Offer or any part of it, or accept late applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their applications as early as possible. Please contact your Broker for instructions.

8.4.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions received from their Broker.

8.4.4 Application Monies

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 receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose applications are accepted in full will receive the whole number of Shares calculated by dividing their Application Monies by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be determined by the applicant's Broker.

Cheque(s) or bank draft(s) must be in Australian dollars and drawn on an Australian branch of an Australian bank, must be crossed 'Not Negotiable' and must be made payable in accordance with the directions of the Broker from whom the applicant received a firm allocation.

Applicants should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s) or bank draft(s). If the amount of your cheque(s) or bank draft(s) for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on your Application Form, you may be taken to have applied for such lower dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your application may be rejected.

8.4.5 Acceptance of applications

An application in the Broker Firm Offer is an offer by an applicant to the Company to subscribe for Shares in the Australian dollar amount 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 (including the conditions regarding quotation on ASX in Section 8.2 and the acknowledgements in Section 8.7). To the extent permitted by law, an application by an applicant under the Offer is irrevocable.

The Company reserves the right to decline any application in whole or in part, without giving any reason. An application may be accepted by the Company and the Joint Lead Managers in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the applicant. Acceptance of an application will give rise to a binding contract.

8.4.6 Broker Firm Offer allocation policy

The allocation of firm stock to Brokers will be determined by the Joint Lead Managers and the Company. Shares which have been allocated to Brokers for allocation to their Australian and New Zealand resident retail clients will be issued to the applicants who have received a valid allocation of Shares from those Brokers (subject to the right of the Company and the Joint Lead Managers to reject or scale back applications which are for more than $100,000). It will be a matter for those Brokers how they allocate Shares among their retail clients, and they (and not the Company or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received an allocation of Shares from them, receive the relevant Shares.

8.4.6.1 Announcement of final allocation policy in the Broker Firm Offer

The Company expects to announce the final allocation policy under the Broker Firm Offer on or about Wednesday, 4 December 2013. It is expected that this information will be advertised in The Australian, The Australian Financial Review, The Sydney Morning Herald and The Age newspapers on that same day. Applicants in the Broker Firm Offer will be able to call the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or on +61 2 8767 1321 (outside Australia) from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only), from Monday, 2 December 2013 to confirm their allocations. Applicants under the Broker Firm Offer will also be able to confirm their allocation through the Broker from whom they received their allocation.

However, if you sell Shares before receiving an initial holding statement, you do so at your own risk, even if you obtained details of your holding from the Dick Smith Offer Information Line or confirmed your allocation through a Broker.

8.5 Chairman's List Offer

8.5.1 Who can apply

The Chairman's List Offer is open to selected investors in Australia and New Zealand who have received a Chairman's List Invitation.

8.5.2 How to apply

If you have received a Chairman's List Invitation and you wish to apply for Shares, please visit www.dicksmith.com.au or contact the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or +61 2 8767 1321 (outside Australia) for information on how to apply. Chairman's List Invitation recipients may only apply for Shares by applying online at www.dicksmith.com.au and by paying your Application Monies via BPAY (no physical Application Form is needed when paying in this manner). There are instructions set out on the online Application Form to help you complete it.

Applications under the Chairman's List Offer must be for a minimum of $2,000 worth of Shares and in multiples of $500 worth of Shares thereafter.

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By making an application, you declare that you were given access to this Prospectus (or any supplementary or replacement 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 his Prospectus or the complete and unaltered electronic version of this Prospectus.**

8.5.3 How to pay

Applicants under the Chairman's List Offer must pay their Application Monies by BPAY in accordance with instructions on the online Application Form. For more details, prospective Applicants should refer to www.dicksmith.com.au or contact the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or, if eligible to do so, on +61 2 8767 1321 (outside Australia).

When completing your BPAY payment, please make sure to use the specific biller code and unique Customer Reference Number (CRN) generated by the online Application Form. Application Monies paid via BPAY must be received by the Share Registry by no later than 5.00pm Sydney time on 2 December 2013 and it is your responsibility to ensure that this occurs. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. Neither the Company nor the Joint Lead Managers take any responsibility for any failure to receive Application Monies or payment by BPAY before the Chairman's List Offer closes arising as a result of, among other things, delays processing of payments by financial institutions.

8.5.4 Application Monies

Subject to Section 8.5.6, the Company reserves the right to decline any application in whole or in part, without giving any reason. Applicants under the Chairman's List Offer whose applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose applications are accepted in full will receive the whole number of Shares calculated by dividing their Application Monies by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest).

If the amount of your Application Monies that you pay via BPAY is less than the amount specified on your online Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your online Application Form) or your application may be rejected.

8.5.5 Acceptance of applications

An application in the Chairman's List Offer is an offer by an applicant to the Company to subscribe for Shares in the amount 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 (including the conditions regarding quotation on ASX in Section 8.2 and the acknowledgements in Section 8.7). To the extent permitted by law, an application by an applicant under the Offer is irrevocable.

An application may be accepted by the Company and the Joint Lead Managers in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the applicant. Acceptance of an application will give rise to a binding contract.

8.5.6 Chairman's List Offer allocation policy

Chairman's List Offer applicants will receive a guaranteed allocation of Shares in the amount notified on their Chairman's List Invitation or such lesser amount validly applied for. Beyond this, the allocation of stock to applicants under the Chairman's List Offer will be determined by the Joint Lead Managers and the Company. Shares which have been allocated to applicants under the Chairman's List Offer will be issued to the applicants who have received a valid allocation of Shares from the Company (subject to the right of the Company and the Joint Lead Managers to reject or scale back applications which are for more than $100,000).

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8.6 Institutional Offer

8.6.1 Invitations to bid

The Company and the Joint Lead Managers will invite certain Institutional Investors to bid for Shares in the Institutional Offer.

The Institutional Offer is an invitation to Australian resident Institutional Investors and other eligible Institutional Investors (including Eligible US Fund Managers) in jurisdictions outside the United States to bid for Shares, made under this Prospectus.

8.6.2 Institutional Offer allocation policy

The allocation of Shares between the Institutional Offer and the Broker Firm Offer will be determined by the Joint Lead Managers and the Company. The Joint Lead Managers and the Company have absolute discretion regarding the basis of allocation of Shares among Institutional Investors and there is no assurance that any Institutional Investor will be allocated any Shares, or the number of Shares for which it has bid.

Participants in the Institutional Offer will be advised of their allocation of Shares, if any, by the Joint Lead Managers.

The allocation policy will be influenced by a number of factors including potentially:

- the number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- the Company's desire for an informed and active trading market following listing on ASX;
- the Company's desire to establish a wide spread of institutional shareholders;
- the overall level of demand under the Retail Offer and Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long term shareholders; and
- any other factors that the Company and the Joint Lead Managers consider appropriate.

8.7 Acknowledgements

Each applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) accompanying the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that once the Company receives an Application Form it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company and the Joint Lead Managers and their respective officers or agents, to do anything on behalf of the applicant(s) necessary for Shares to be allocated to the applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, the Company may not pay dividends;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not investment advice or a recommendation that Shares are suitable for the applicant(s), given the investment objectives, financial situation or particular needs of the applicant(s);
- declared that the applicant(s) is/are a resident of Australia or New Zealand (except as applicable to the Institutional Offer);

- acknowledged that the Shares have not been, and will not be, registered under the Securities Act or pursuant to the securities laws of any other jurisdiction outside Australia;
- represented and warranted that the applicant(s) is/are not in the United States or other place outside Australia and New Zealand and is/are not a US Person (and not acting for the account or benefit of a US Person), and the applicant(s) will not offer, sell or resell the Shares in the United States to, or for the account or benefit of, any US Person;
- acknowledged and agreed that the Offer may be withdrawn by the Company or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

8.8 Underwriting arrangements

The Offer is fully underwritten. The Joint Lead Managers and the Company have entered into an Underwriting Agreement under which the Joint Lead Managers have been appointed as managers and underwriters of the Offer. The Joint Lead Managers agree, subject to certain conditions and termination events, to underwrite severally applications for all Shares under the Offer in equal proportions. The Underwriting Agreement is subject to a number of conditions precedent and sets out a number of circumstances under which the Joint Lead Managers may terminate the Underwriting Agreement and their underwriting obligations. A summary of certain terms of the agreement and underwriting arrangements, including the conditions precedent and termination provisions, is provided in Section 10.5.

8.9 Escrow arrangements

It is expected that, on completion of the Offer:

- the Management Shareholders will hold 11.5% (including LMA Investments, with 6.5%); and
- Anchorage will hold 20.0%,

of the Shares on issue (together with applicable controlling parties, "Escrowed Shareholders") and will each enter into voluntary escrow arrangements over these Shares.

In the case of the Management Shareholders (other than LMA Investments) and their associated Escrowed Shareholders, these escrow arrangements will prevent them from disposing of:

- any of their escrowed Shares prior to the date on which the Company's audited financial accounts for FY2014 are released to ASX by the Company; and
- 50% of their escrowed Shares prior to the date on which the Company's audited financial accounts for FY2015 are released to ASX by the Company.

Under Anchorage's escrow arrangements, it and its and associated Escrowed Shareholders will be prevented from disposing of any of its escrowed Shares prior to the date on which the Company's audited financial accounts for FY2014 are released to ASX by the Company.

In the case of LMA Investments and its associated Escrowed Shareholders, these escrow arrangements will prevent it from disposing of:

- any of its escrowed Shares prior to the date on which the Company's audited financial accounts for FY2014 are released to ASX by the Company; and
- 36.0% of its escrowed Shares (being 2.3% of Shares on issue on completion of the Offer) prior to the date on which the Company's audited financial accounts for FY2015 are released to ASX by the Company.

There are limited circumstances in which Shares subject to escrow at any given time during the periods referred to above may be released, including:

- to allow the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Shares and holders of at least half of the Shares the subject of the bid that are not held by the Escrowed Shareholders have accepted the takeover bid;
- to allow the Shares held by the Escrowed Shareholder to be transferred or cancelled as part of a merger by scheme of arrangement under Part 5.1 of the Corporations Act;
- the death or incapacity of the Escrowed Shareholder; and
- to permit disposal of the Shares held by the Escrowed Shareholder to the extent the dealing is required by applicable law (including an order of court of competent jurisdiction).

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The restriction on 'disposing' of Shares subject to escrow at any given time during the periods referred to above is broadly defined. It includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of any of the Shares or agreeing to do any of those things.

8.10 Discretion regarding the Offer

The Company may withdraw the Offer at any time before the issue of Shares to successful applicants under the Retail Offer and the Institutional Offer respectively. The Company will withdraw the Offer if the Sale Deed Offer (as described in Section 10.4) is not accepted by all persons holding Dick Smith Sub Shares at Settlement and if the other conditions set out in Section 8.2 are not satisfied. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest) in accordance with the requirements of the Corporations Act.

The Company 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 the amount applied or bid for. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

8.11 ASX and ASIC

8.11.1 ASX waivers and confirmations

The Company has applied to ASX for the following Listing Rule waivers and confirmations:

- confirmation that Listing Rule 10.14 does not apply to the grant, under the LTIP, of $625,000 worth of Options to the Company's Managing Director and CEO, Nicholas Abboud on or shortly after Listing; and
- a waiver from the requirement in Listing Rule 10.11 to obtain Shareholder approval to permit Shares to be issued to the four non-executive Directors named in this Prospectus in lieu of their accrued Directors' fees for the first two years after Listing.

The Company has also applied to ASX for confirmation that it may undertake conditional and deferred settlement trading of the Shares, subject to the conditions set out in the table in Section 8.2, along with other customary confirmations.

As detailed above, the Company has obtained an in-principle waiver from the requirement in Listing Rule 10.11 to obtain Shareholder approval to permit Shares to be issued to the four non-executive Directors named in this Prospectus in lieu of their accrued Director's fees. As the waiver was obtained on an 'in-principle' basis, it is expected that the formal waiver will be granted by ASX on the condition, among other things, that adequate disclosure of the proposed arrangement is made in this Prospectus.

If any of Phil Cave, Bill Wavish, Lorna Raine and Robert Ishak elect to receive Shares in lieu of their accrued Director's fees, they will be issued, at the time for payment of those fees, with a number of Shares based on the volume weighted average price for Shares calculated over an applicable reference period to be determined by the Board prior to the date for payment of the accrued fees.

For the purposes of satisfying the conditions to the expected waiver, the following additional information is provided:

- The number of Shares that may be issued to any of Phil Cave, Bill Wavish, Lorna Raine and Robert Ishak is referable to the amount of their accrued Director's fees divided by the volume weighted average price for Shares over the applicable reference period (to be determined by the Board) prior to the date for payment of the accrued fees.
- For example, and assuming that each of the non-executive Directors receive their full entitlement of $100,000 per annum (excluding for the purposes of this example, superannuation and any further amounts payable to a non-executive Director for additional services performed for the Board (for example, serving on a committee of the Board, for which extra remuneration is payable)) and the volume weighted average price for Shares is $2.20, then each non-executive Director who elected to receive Shares in lieu of their Director's fees would receive 45,455 Shares. Of course, if the price per Share is lower, then they would receive more Shares, and if the price for Shares is higher, they will receive less Shares.

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- Shares will be issued to a non-executive Director who elects to receive Shares in lieu of their Director's fees on the date for payment of those fees. No Shares will be issued to a non-executive Director under this arrangement without Shareholder approval after 2 years from the date of Listing.
- The price per Share will be determined by calculating the volume weighted average price for Shares over an applicable reference period prior to the date for payment of the accrued fees.
- All Shares to be issued will be fully paid ordinary shares in the Company which will rank equally with all other Shares then in existence, including in respect of any dividend or other entitlements.

The Company's Managing Director and CEO, Nick Abboud is not entitled to receive Shares under this arrangement.

8.11.2 ASIC exemption, modification and relief

The Company has applied for certain exemption from, modification to, and relief from, the following provisions of the Corporations Act:

- exemption from the requirements of Section 734(2) of the Corporations Act to enable it to communicate limited information in relation to the Offer prior to lodgement of the Prospectus with ASIC, to certain stakeholders, including Dick Smith's employees;
- modification of Section 708A of the Corporations Act to the extent necessary to permit the Shares to be issued to Dick Smith Sub Shareholders under the Sale Deed and to any institutional investors acquiring Shares otherwise than under the Prospectus, to be able to be sold on ASX within 12 months of their issue without the requirement for a future disclosure document being prepared in connection with that sale; and
- relief so that the takeovers provisions of the Corporations Act will not apply to certain Relevant Interests that the Company would otherwise acquire in the Anchorage and the Management Shareholders' escrowed Shares by reason of the voluntary escrow arrangements in relation to those Shares described in Section 8.9.

8.12 ASX listing, registers and holding statement, and deferred/ conditional settlement trading

8.12.1 CHESS and issuer sponsored holdings

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

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub registers, being 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 of the Offer, 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 for CHESS holders or, where applicable, the Securityholder Reference Number 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 during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the 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 Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

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8.13 Description of Shares

8.13.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the Listing Rules and 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 exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List. New Zealand investors may obtain a copy of the Company's constitution from the New Zealand Companies Office.

8.13.2 Voting at a general meeting

At a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held.

On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each Share held.

8.13.3 Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the Listing Rules.

8.13.4 Dividends

The Board may from time to time resolve to pay dividends to Shareholders and fix the amount of the dividend, the time for determining entitlements to the dividend and the timing and method of payment. For further information in respect of the Company's proposed dividend policy, see Section 5.17.

8.13.5 Transfer of Shares

Subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with the ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules.

The Board may refuse to register a transfer of Shares where permitted to do so under the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules. The Board must refuse to register a transfer of Shares when required to by the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules.

8.13.6 Issue of further shares

Subject to the Corporations Act, the Listing Rules and the ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, the Company may issue, or grant options in respect of, or otherwise dispose of further shares on such terms and conditions as the Directors resolve.

8.13.7 Winding up

If the Company is wound up, then subject to the Constitution and any special resolution or preferential rights or restrictions attached to a class of shares, any surplus must be divided among the Company's members in the proportions which the amount paid and payable (including amounts credited) on the shares of a member is of the total amount paid and payable (including amounts credited) on the shares of all members of the Company.

8.13.8 Unmarketable parcels

Subject to the Corporations Act, the Listing Rules and the ASX Settlement Operating Rules, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

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8.13.9 Share buy-backs

Subject to the Corporations Act, the Listing Rules and the ASX Settlement Operating Rules, the Company may buy back shares in itself on terms and at times determined by the Board.

8.13.10 Proportional takeover provisions

The Constitution contains provisions for Shareholder approval to be required in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by special resolution of the Shareholders in general meeting by the third anniversary of the date of the Constitution's adoption.

8.13.11 Variation of class rights

At present, the Company's only class of shares on issue is ordinary shares. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:

- with the consent in writing of the holders of three-quarters of the issued shares included in that class; or
- by a special resolution passed at a separate meeting of the holders of those shares.

In either case, in accordance with the Corporations Act, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

8.13.12 Dividend reinvestment plan

The Directors may, on any terms and at their discretion, establish a dividend reinvestment plan (under which any member may elect that the dividends payable by the Company be reinvested by a subscription for securities). The Directors have no current intention to establish a dividend reinvestment plan.

8.13.13 Directors – appointment and rotation

Under the Constitution, the minimum number of Directors that may comprise the Board is three and the maximum is fixed by the Directors but may not be more than seven unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that no Director (excluding the Managing Director and CEO) holds office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of the Company.

8.13.14 Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote.

8.13.15 Directors – remuneration

The Directors, other than an executive Director (of which there is one, the Managing Director and CEO, Nick Abboud, as at the Prospectus Date), will be paid by way of fees for services up to the maximum aggregate sum per annum as may be approved from time to time by the Company in general meeting. The current maximum aggregate sum per annum is $1 million with the initial remuneration of the Directors set out in Section 7.2. Any change to that maximum aggregate sum needs to be approved by Shareholders. The Constitution also makes provision for the Company to pay all reasonable expenses of Directors in attending meetings and carrying on their duties.

8.13.16 Indemnities

The Company, to the extent permitted by law, indemnifies each Director against any liability incurred by that person as an officer of the Company or its subsidiaries, and reasonable legal costs incurred by that person in defending an action for a liability of that person. The Company, to the extent permitted by law, may make a payment (whether by way of an advance, loan or otherwise) to a Director in respect of legal costs incurred by that person in defending an action for a liability of that person.

The Company, to the extent permitted by law, may pay, or agree to pay, a premium for a contract insuring any Director against any liability incurred by that person as an officer of the Company or its subsidiaries and legal costs incurred by that person in defending an action for a liability of that person.

The Company, to the extent permitted by law, may enter into an agreement or deed with a Director or a person who is, or has been, an officer of the Company or its subsidiaries, under which the Company must do all of the following:

- keep books of the Company and allow either or both that person and that person's advisers access to those books on the terms agreed;
- indemnify that person against any liability incurred by that person as an officer of the Company or its subsidiaries and legal costs incurred by that person in defending an action for a liability of that person;
- make a payment (whether by way of advance, loan or otherwise) to that person in respect of legal costs incurred by that person in defending an action for a liability of that person; and
- keep that person insured in respect of any act or omission by that person while a Director, or an officer of the Company or its subsidiaries, on the terms agreed (including as to payment of all or part of the premium for the contract for insurance).

8.13.17 Amendment

The Constitution may be amended only by special resolution passed by at least three-quarters of the Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of the Company.

The Company must give at least 28 days' written notice of a general meeting of the Company.

8.14 Restrictions on distribution

No action has been taken to register or qualify the Shares that are the subject of the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia and New Zealand. The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Shares have not been, and will not be, registered under the US Securities Act and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act.

This Prospectus may not be distributed in the United States and may only be distributed to persons to whom the Offer may be lawfully made in accordance with the laws of any applicable jurisdiction.

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Investigating Accountant's Report

9

9. Investigating Accountant's Report

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The Directors
Dick Smith Holdings Limited
2 Davidson Street
Chullora NSW 2190

14 November 2013

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT AND FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the directors (the Directors) of Dick Smith Holdings Limited (the Company or Dick Smith) for inclusion in a prospectus to be issued by the Company (the Prospectus) in respect of the offer of fully paid ordinary shares in the Company (Shares)(the Offer).

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence under the *Corporations Act 2001* (Cth) (Corporations Act) for the issue of this report.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

Scope

Pro forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review:

- the Pro forma Historical Consolidated Income Statements for the financial years ended 26 June 2011, 24 June 2012 and 30 June 2013 and for the three months ended on 29 September 2013 which are included in Table 5.4.1.1 of the Prospectus; and
- the Pro forma Consolidated Balance Sheet as at 30 June 2013 which is included in Table 5.5.1.1 of the Prospectus,

(together, the Pro forma Historical Financial Information).

The Pro forma Historical Financial Information has been derived from the following financial information:

- the audited consolidated financial statements of Dick Smith Sub for the period from 27 November 2012 to 30 June 2013; and
- the unaudited accounting records of DSE for the period from 28 June 2010 to 26 November 2012 (together the Historical Financial Information); and
- the pro forma adjustments applied to the Historical Financial Information to illustrate the effect of events and transactions related to the Offer on the Company as described in section 5.3.1 of the Prospectus.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

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The financial statements of Dick Smith Sub for the period ended 30 June 2013 were audited by Deloitte Touche Tohmatsu. The audit opinion issued to the members of Dick Smith Sub relating to those financial statements was unqualified.

The Pro forma Historical 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.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Historical Financial Information, the Company's accounting policies and the events and transactions to which the pro forma adjustments relate, as described in Section 5.3.1 of the Prospectus, as if those events and transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro forma Historical Financial Information does not represent the Company's actual or prospective financial position or financial performance.

The Forecast Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review:

- The Statutory Forecast Consolidated Income Statement for the financial year ending 29 June 2014 and the Statutory Forecast Consolidated Cash Flow Statement of the Company for the year ending 29 June 2014 as set out in the Prospectus in Tables 5.4.1.1 and 5.6.1.1 (together, the Statutory Forecast Financial Information). The Directors' best-estimate assumptions underlying the Statutory Forecast Financial Information are described in Section 5.11 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and

- The Pro forma Forecast Consolidated Income Statement for the financial year ending 29 June 2014 and the Pro forma Forecast Consolidated Cash Flow Statement of the Company for the financial year ending 29 June 2014 as set out in the Prospectus in Tables 5.4.1.1 and 5.6.1.1 (together, the Pro forma Forecast Financial Information). The Pro forma Forecast Financial Information has been derived from the Statutory Forecast Financial Information, after adjusting for the effects of the pro forma adjustments described in Section 5.7.2 of the Prospectus (the Pro forma Adjustments). The stated basis of preparation used in the preparation of the Pro forma Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Forecast Financial Information and the events and transactions to which the Pro forma Adjustments relate, as if those events and transactions had occurred as at 30 June 2013. Accordingly, due to their nature and basis of preparation, the Pro forma Forecast Financial Information does not represent the Company's actual prospective financial performance and cash flows for the year ending 30 June 2014,

(together, the Forecast Financial Information).

The Forecast Financial Information has been prepared by management of Dick Smith Sub and adopted by the Directors of the Company in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 29 June 2014. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events and transactions frequently do not occur as expected and the variation may be material.

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The Directors' best estimate assumptions on which the Forecast Financial Information is based relate to future events and transactions that management of the Company expects to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance (audit) conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. The limited assurance (review) conclusion expressed in this report in relation to the Forecast Financial Information has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in Section 6 of the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly, prospective investors should have regard to the investment risks and sensitivities set out in the Prospectus. The sensitivity analysis set out in the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Pro forma Historical Financial Information, including the selection and determination of pro forma adjustments included in the Pro forma Historical Financial Information;
- the preparation of the Forecast Financial Information, including the best estimate assumptions underlying the Forecast Financial Information and the selection and determination of the Pro forma Adjustments made to the Statutory Forecast Financial Information and included in the Pro forma Forecast Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Pro forma Historical Financial Information and the Forecast Financial Information that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pro forma Historical Financial Information, the Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information (together, the Financial Information) based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagement (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

In connection with the review, we made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances.

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A review consists of making enquiries, primarily of persons responsible for financial and accounting matters including directors, management and others, and applying analytical procedures to the Financial Information and other review procedures as considered necessary. A review 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 will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Pro forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information is not presented fairly in all material respects, on the basis of the pro forma adjustments described in Section 5.3.1 of this Prospectus and in accordance with the recognition and measurement principles contained in the Australian Accounting Standards and the accounting policies adopted by the Company as disclosed in the Prospectus.

The Statutory Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Statutory Forecast Financial Information do not provide reasonable grounds for the Statutory Forecast Financial Information;

(ii) in all material respects, the Statutory Forecast Financial Information is not:
   a. prepared on the basis of the Directors' best estimate assumptions as described in the Prospectus; or
   b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in the Australian Accounting Standards; or

(iii) the Statutory Forecast Financial Information itself is unreasonable.

The Pro forma Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Pro forma Forecast Financial Information do not provide reasonable grounds for the Pro forma Forecast Financial Information;

(ii) in all material respects, the Pro forma Forecast Financial Information is not:
   a. prepared on the basis of the Directors' best estimate assumptions as described in the Prospectus ; or
   b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in the Australian Accounting Standards, and the Pro forma Adjustments as disclosed in the Prospectus; or

(iii) the Pro forma Forecast Financial Information itself is unreasonable.

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Restrictions on Use

Without modifying our conclusions, we draw your attention to the Important Notices section of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, this Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is included.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours faithfully

Steven Shirtliff
Director

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Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and regulated emissions units (i.e., carbon) to retail and wholesale clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We and other entities related to Deloitte Touche Tohmatsu:

- do not have any formal associations or relationships with any entities that are issuers of financial products
- may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1300 780 808
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 February 2013

Deloitte Corporate Finance Pty Limited, ABN 19 003 883 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

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Member of Deloitte Touche Tohmatsu Limited

9. Investigating Accountant's Report

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Additional information

10

10. Additional information

10.1 Registration

The Company was incorporated in Victoria, Australia on 25 October 2013 as a public company limited by shares. At the Prospectus Date, the Company has not traded and has 100 Shares on issue currently held by Anchorage.

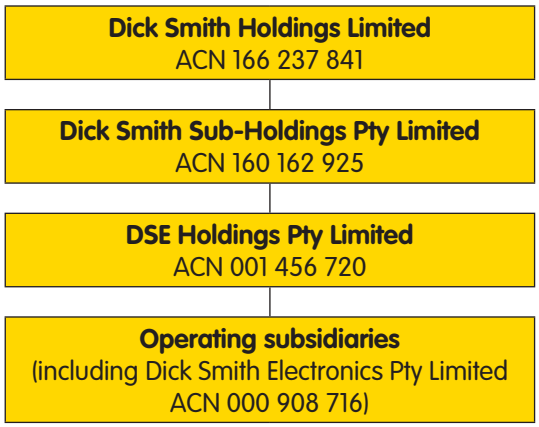
10.2 Tax status

The Company will be taxed as an Australian tax resident public company for the purpose of Australian income tax law.

10.3 Corporate structure

The following diagram shows a high level corporate structure of Dick Smith on completion of the Offer. Refer to Section 10.4 for further details of the internal restructure to occur pursuant to the Sale Deed on Settlement (the effect of which is reflected in the diagram below).

10.3.1.1 Figure: Group structure chart



10.4 Internal restructure and capital structure

10.4.1 Summary of Sale Deed

On Wednesday, 13 November 2013, the Company entered into the Sale Deed, being a deed poll in favour of all Dick Smith Sub Shareholders immediately prior to Settlement (including Anchorage). Under the Sale Deed, the Company has made the Sale Deed Offer to the Existing Owners, which is an offer to acquire all of the Dick Smith Sub Shares. The aggregate consideration payable by the Company for the Dick Smith Sub Shares under the Sale Deed is the Purchase Price, which is calculated as the Offer Price multiplied by the number of Shares on issue following the Offer (being 236.5 million Shares), plus $15 million (being the estimated amount of excess cash in the business following the Offer).

The Purchase Price will be allocated to the Dick Smith Sub Shareholders as follows. The Management Shareholders will receive 10.33% of the Net Purchase Price, which is the Purchase Price less $50 million. Assuming the Baden Shareholder exercises all of its options over B class preference Dick Smith Sub Shares prior to Settlement, it will receive 2.5% of the Net Purchase Price. The balance of the Purchase Price will be paid to the Existing Ordinary Owners, being the holders of ordinary Dick Smith Sub Shares, which at the Prospectus Date are Anchorage as to 98% of such ordinary shares and LMA Investments as to 2% of such ordinary shares. The Existing Ordinary Owners are entitled to receive the consideration for their ordinary Dick Smith Sub Shares in the form of cash, or a combination of cash and Shares (with the number of Shares received equal to the amount elected to be received as Shares, divided by the Offer Price).

The Management Shareholders have irrevocably accepted the Sale Deed Offer in respect of their preference Dick Smith Sub Shares. The Management Shareholders will receive all of the consideration payable to them for those Dick Smith Sub Shares in the form of Shares (with the number of Shares received equal to the relevant holder's entitlement to the Net Purchase Price, divided by the Offer Price). The Shares to be held by the Management Shareholders on completion of the Offer and subject to escrow arrangements are set out in Section 8.9. As at the Prospectus Date, the Baden Shareholder has not exercised any of its options over B class preference Dick Smith Sub Shares or accepted the Sale Deed Offer. To the extent that the Baden Shareholder exercises those options, it will receive all of the consideration payable to it for the Dick Smith Sub Shares issued as a result of such exercise in the form of Shares (with the number of Shares received equal to the Baden Shareholder's entitlement to the Net Purchase Price, divided by the Offer Price). To the extent that the Baden Shareholder does not exercise those options, the options not exercised will lapse, the Baden Shareholder will not hold any Shares on completion

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of the Offer (assuming it does not apply for and receive an allocation of Shares under the Offer) and the shareholdings of certain other Shareholders referred to above will adjust proportionally.

Completion under the Sale Deed is conditional on the acceptance of the Sale Deed Offer by all persons holding Dick Smith Sub Shares on Settlement. Completion of the sale of the Dick Smith Sub Shares under the Sale Deed will occur after that condition is satisfied. Anchorage has separately agreed that, to the extent that it elects to receive consideration in the form of cash, the amount of cash to be paid to it will be reduced by the Employee Award Offer Amount which will be retained by the Company to, in effect, fund the subscription price relating the Shares issued to employees under the Employee Award Offer. For the purpose of payment of the consideration to be received for the Dick Smith Sub Shares on completion, the fees and expenses of the Offer (net of tax deductions) incurred by the Company will be assumed to be $21.0 million. If the fees and expenses of the Offer (net of tax deductions) incurred by the Company are less than $21.0 million, there will not be an adjustment to cash consideration paid to the Dick Smith Sub Shareholders and the balance will be retained by the Company.

Anchorage has executed a separate LMA Rights Forfeiture Deed, which is a deed poll in favour of LMA Investments, in which Anchorage has offered to pay LMA Investments $6 million in consideration for LMA Investments forfeiting its rights to receive consideration in the form of cash for its ordinary Dick Smith Sub Shares under the Sale Deed.

As at the Prospectus Date, neither Anchorage nor LMA Investments has accepted the Sale Deed Offer in respect of the ordinary Dick Smith Sub Shares they hold. Also, LMA Investments has not accepted the offer under the LMA Rights Forfeiture Deed. As noted in Section 8.2, however, the Offer is conditional on, among other things, their acceptance of the Sale Deed Offer in the manner described in that section. If Anchorage and LMA Investments accept the Sale Deed Offer and elect to receive any of the consideration in the form of Shares, those Shares will be subject to escrow arrangements as set out in Section 8.9.

10.4.2 Shares to be issued under the Offer

The details of the ownership of Dick Smith Sub Shares as at the Prospectus Date and the expected ownership of the Shares on completion of the Offer are set out in Section 8.1.

The total number of Shares on issue upon completion of the Offer will be 236.5 million. As a result of the provisions of the Sale Deed (under which the number of Shares issuable to Management Shareholders and the Baden Shareholder (assuming it exercises all of its options over B class preference Dick Smith Sub Shares prior to Settlement) is variable), the number of Shares to be issued under the Offer will depend on the Offer Price. It will be determined with the following formula:

Number of Shares to be issued under the Offer = Post-Offer Capitalisation – ((Net Purchase Price x Sale Deed Proportion) / Offer Price) – Anchorage's Post-Offer Shareholding

where:

- Post-Offer Capitalisation is the total number of Shares on issue upon completion of the Offer, being 236.5 million;
- Sale Deed Proportion is the aggregate proportion of the Net Purchase Price to which the Management Shareholders and the Baden Shareholder (assuming it exercises all of its options over B class preference Dick Smith Sub Shares prior to Settlement) are collectively entitled under the Sale Deed, being 0.1283 (based on the foregoing assumption); and
- Anchorage's Post-Offer Shareholding is the total number of Shares that Anchorage elects to receive as consideration under the Sale Deed, assumed to be 47.3 million.

10.5 Underwriting Agreement

The Offer is being underwritten by the Joint Lead Managers pursuant to an underwriting agreement, dated 14 November 2013, between the Joint Lead Managers, the Company and Dick Smith Sub, as guarantor. Under the Underwriting Agreement, the Joint Lead Managers have agreed to arrange, manage and underwrite, and act as bookrunners for, the Offer.

For the purpose of this Section 10.5, 'Offer Documents' includes any of the following documents issued or published by, or on behalf of, and with the authorisation of, the Company in respect of the Offer, and in the form agreed by the Joint Lead Managers:

- this Prospectus, the Application Form and any supplementary prospectus;
- the pathfinder version of this Prospectus (including any cover email) that was provided to Institutional Investors and Brokers prior to the lodgement of this Prospectus with ASIC;

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- the NZ Opt-in Notice and any other notices in connection with the NZ Securities Laws; and
- the marketing, roadshow presentation and/or ASX announcement(s) used by or on behalf of the Company to conduct the Offer.

10.5.1 Commissions, fees and expenses

The Company must pay the Joint Lead Managers in accordance with the Underwriting Agreement an underwriting fee equal to 2.2%, and a management fee of 0.55%, of the total Offer proceeds. These fees will be paid to the Joint Lead Managers in equal proportions. The Company may also elect, at its absolute discretion, to pay the Joint Lead Managers an incentive fee of up to 0.75% of the total Offer proceeds.

The Company has agreed to reimburse the Joint Lead Managers for certain agreed costs and expenses incurred by the Joint Lead Managers in relation to the Offer.

10.5.2 Termination events

A Joint Lead Manager may terminate the Underwriting Agreement, at any time after the date of the Underwriting Agreement and on or before 10.00am on the date for Settlement by notice to the other parties if any of the following events, among others, occur:

- a statement in any of the Offer Documents is or becomes misleading or deceptive or is likely to mislead or deceive, or a matter required to be included is omitted from an Offer Document (including, without limitation, having regard to the provisions of Part 6D.2 of the Corporations Act and the NZ Securities Laws) or is likely to deceive, mislead or confuse with regard to any particular that is material to the offer of securities to which t relates under Section 38B of the Securities Act 1978 (NZ) or a statement that is untrue under Section 58 of the Securities Act 1978 (NZ);
- there is a new circumstance that arises after the Prospectus is lodged with ASIC that would have been required to be included in the Prospectus if it had arisen before lodgement;
- the Company issues, or in the reasonable opinion of a Joint Lead Manager, is required to issue, a supplementary prospectus, in each case, to comply with Section 719 of the Corporations Act;
- at any time the S&P/ASX 200 Index falls to a level that is 85% or less of the level as at the close of trading on the day immediately prior to the date of the Underwriting Agreement and is at or below that level at the close of trading (i) for two consecutive Business Days during any time after the date of the Underwriting Agreement or (ii) on the Business Day immediately prior to the date for Settlement;
- 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 within the specified time or (ii) the quotation of Shares within the specified time and in either case if approval is granted, that approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- any of the voluntary escrow arrangements referred to in this Prospectus are withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- the Sale Deed is withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with or the conditions in that deed are not satisfied;
- except in certain cases, any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under Section 739 of the Corporations Act;
  - ASIC holds a hearing under Section 739(2) of the Corporations Act;
  - an application is made by ASIC for an order under Part 9.5 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or the Offer Documents;
  - any person (other than a Joint Lead Manager) who has previously consented to the inclusion of its name in the Prospectus withdraws that consent;
  - any person (other than a Joint Lead Manager, or Co-Manager) gives a notice under Section 730 of the Corporations Act in relation to the Prospectus; or
  - the New Zealand Registrar or NZFMA contacts or gives any notice to the Company (including, one making any order suspending or cancelling the issue or use of the NZ Opt-in Notice or any

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advertisement (including the Prospectus), or preventing the Company or Dick Smith Sub from filing the NZ Opt-in Notice or any advertisement (including the Prospectus)) or the NZFMA exercises any power under Part 3 of the Securities Act 1978 (NZ);

- the Company withdraws the Prospectus, the Offer or any part of it;
- if any of the obligations of the Company or its subsidiaries under any material contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the Joint Lead Managers) or if all or any part of any such contracts (i) is amended or varied without the consent of the Joint Lead Managers (acting reasonably), (ii) is terminated, (iii) is materially breached, (iv) ceases to have effect, otherwise than in accordance with its terms or (v) is or becomes void, voidable, illegal, invalid or unenforceable or capable of being terminated, rescinded or avoided or of limited force and effect, or its performance is or becomes illegal (provided that the events noted in clauses (i) and (iii) are subject to the condition to termination noted in Section 10.5.3);
- the Company, Dick Smith Sub or any of their respective subsidiaries becomes insolvent or there is an act or omission that is likely to result in the Company, Dick Smith Sub or any of their respective subsidiaries becoming insolvent;
- except in certain cases, an event specified in the Offer timetable up to and including the date of Settlement is delayed by more than two Business Days;
- the Company is prevented from issuing Shares within the time required by the Underwriting Agreement, the Prospectus, the Listing Rules, applicable laws, an order of court of competent jurisdiction or a governmental authority; or
- a change in Managing Director and CEO, Chief Financial Officer or the Board or the corresponding positions in Dick Smith Sub occurs.

10.5.3 Termination subject to materiality

A Joint Lead Manager may terminate the Underwriting Agreement, at any time after the date of the Underwriting Agreement and on or before 10.00am on the date for Settlement by notice to the other parties, if any of the following events, among others, occur and the Joint Lead Manager has reasonable grounds to believe that the event (i) has or is likely to have a material adverse effect on the success, Settlement or marketing of the Offer, on the ability of the Joint Lead Manager to promote or settle the Offer or on the likely price at which the Shares will trade on ASX, or on the willingness of investors to subscribe for Shares or (ii) will, or is likely to, give rise to a liability of the Joint Lead Manager under, or a contravention by the Joint Lead Manager or its affiliate of, any applicable law:

- the due diligence report provided by or on behalf of the Company or Dick Smith Sub to the Joint Lead Managers in relation to the Company, Dick Smith Sub or the Offer is (or is likely to), or becomes (or becomes likely to be), misleading or deceptive, including by way of omission;
- an event that is an adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company and its subsidiaries from those disclosed in the Prospectus;
- hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, Japan, the United Kingdom, the People's Republic of China, Singapore or any member state of the European Union, 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;
- a new law is introduced, or there is a public announcement of a proposal to introduce a new law, into the Parliament of Australia, New Zealand, the United States, the United Kingdom, Japan, Hong Kong, any member state of the European Union or any state or territory of Australia, or the Reserve Bank of Australia or New Zealand, or any Commonwealth or state authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy that has been announced before the date of the Underwriting Agreement);
- a representation, warranty or undertaking or obligation contained in the Underwriting Agreement on the part of the Company or Dick Smith Sub (whether jointly or severally) is breached, becomes not true or correct or is not performed;
- there is a contravention by the Company or a member of the Company of the Corporations Act, the Competition and Consumer Act 2010 (Cth), the Australian Securities and Investments Commission Act 2001 (Cth) or the Companies Act 1993 (NZ);

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- legal proceedings against the Company, Dick Smith Sub or any of their respective directors in their capacity as a director is commenced or any regulatory body commences an enquiry or public action against the Company, Dick Smith Sub or any of their respective subsidiaries; or
- any of the following occurs (i) a general moratorium on commercial banking activities in Australia, New Zealand, the People's Republic of China, Japan, Singapore, Hong Kong, the United Kingdom, the United States or a member state of the European Union is declared by the relevant central banking authority in those countries, or there is a 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, Japan, the People's Republic of China, Singapore, Hong Kong, the United Kingdom, the United States or a member state of the European Union, 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 ASX, the New Zealand Stock Exchange, the London Stock Exchange, the Hong Kong Stock Exchange or the Tokyo Stock Exchange is suspended, or limited, in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading.

10.5.4 Conditions, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by the Company to the Joint Lead Managers (as well as common conditions precedent, including the entry into a voluntary escrow deed by certain of the Escrowed Shareholders, and ASIC and ASX granting the waivers and modifications necessary to enable the Offer to proceed in accordance with the timetable).

The representations and warranties given by the Company relate to matters such as the conduct of the Company, power and authorisations, information provided by the Company, financial information, information in this Prospectus, the conduct of the Offer, and compliance with laws, the Listing Rules and other legally binding requirements. The Company also provides additional representations and warranties in connection with matters including in relation to its assets, litigation, non-disposal of escrowed Shares, entitlements of third parties, tax, insurance, authorisations, eligibility for Listing and internal accounting controls. The Company's undertakings include that it will not, during the period following the date of the Underwriting Agreement until 180 days after Shares have been issued under the Offer, issue any equity securities without the consent of the Joint Lead Managers subject to certain exceptions. These exceptions include an issue of securities pursuant to the LTIP as described in the Offer Documents or a proposed transaction fully and fairly disclosed in the pathfinder version of this Prospectus.

10.5.5 Indemnity

Subject to certain exclusions relating to, among other things, gross negligence, fraud or wilful misconduct of an indemnified party, the Company has agreed in the Underwriting Agreement to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

10.6 Other material contracts

10.6.1 New Facility

Refer to Section 5.14 for a description of the New Facility and associated security arrangements, pursuant to which the Lender provides revolving debt facilities.

10.6.2 Acquisition share sale agreement and exit payment deed

On 26 September 2012, Dick Smith Sub entered into a share sale agreement with Woolworths ("Woolworths Sale Agreement") to acquire all of the issued share capital in DSE. The acquisition was completed on 26 November 2012. Under the terms of the Woolworths Sale Agreement, Woolworths received an initial payment of $20 million and was entitled to benefit in upside resulting from a future sale of Dick Smith by Anchorage above an agreed threshold. On 15 May 2013, Woolworths and Dick Smith Sub agreed to terminate this entitlement in return for a payment by Dick Smith Sub to Woolworths of $74 million. Part of that payment was deferred. At the Prospectus Date, the outstanding deferred amount payable to Woolworths is $16 million. The total outstanding amount is payable within 10 Business Days of completion of the Offer.

The Woolworths Sale Agreement was stamped for marketable securities duty in New South Wales as the company acquired, DSE, was incorporated in New South Wales. In addition to marketable securities duty, submissions were made to the relevant Offices of State Revenue that landholder duty was not payable in relation to the acquisition. The submissions were accepted by all relevant Offices of State Revenue other than New South Wales and Western Australia. At the Prospectus Date, management estimates that the maximum aggregate

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exposure to landholder duty payable by Dick Smith is likely to be less than $1,000,000, although there remains a risk that an alternate valuation methodology may be adopted by the Offices of State Revenue of New South Wales and Western Australia resulting in a higher landholder duty liability.

10.6.3 David Jones retail brand management agreement

Refer to Section 4.2.2.7 for a description of the retail brand management agreement entered into in August 2013 between Dick Smith and David Jones pursuant to which Dick Smith operates the consumer electronics division of 30 David Jones stores and will operate David Jones' consumer electronics online offering for an initial term of three years from 1 October 2013, with three options to extend, each for a further 12 months.

10.7 Contract summaries

Summaries of contracts set out in this Prospectus (including the summaries of the Underwriting Agreement in Section 10.5, the Sale Deed and LMA Rights Forfeiture Deed in Section 10.4 and the contracts referred to in Section 10.6), are included for the information of potential investors but do not purport to be complete and are qualified by the text of the contracts themselves.

10.8 Litigation and claims

As at the Prospectus Date, so far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which Dick Smith is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of Dick Smith.

10.9 Consents to be named and disclaimers of responsibility

Each of the parties referred to below (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 a statement or report included in this Prospectus with its consent as specified below.

Each of the Consenting Parties has given and has not, before the lodgement of the Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. None of the Consenting Parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement is made in this Prospectus is based, other than as specified below:

- Goldman Sachs Australia Pty Ltd;
- Macquarie Capital (Australia) Limited;
- Minter Ellison;
- Minter Ellison Rudd Watts;
- Aquasia Pty Ltd;
- Deloitte Corporate Finance Pty Limited;
- Deloitte Touche Tohmatsu;
- Ernst & Young;
- Link Market Services Limited;
- JBWere Limited;
- Macquarie Equities Limited; and
- GfK Retail and Technology, Australia Pty. Limited.

Deloitte Corporate Finance Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of statements by it, including its Investigating Accountant's Report in Section 9 and the statements specifically attributed to it in the text of, or by a footnote in, this Prospectus, in the form and context in which they are included (and all other references to that report and those statements) in this Prospectus.

Deloitte Touche Tohmatsu has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of statements specifically attributed to it in the text of this Prospectus, in the form and context in which they are included (and all other references to those statements) in this Prospectus.

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10. Additional information

GfK Retail and Technology, Australia Pty. Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of statements by it and the statements specifically attributed to it in the text of, or by a footnote in, this Prospectus, in the form and context in which they are included (and all other references to those statements) in this Prospectus.

10.10 Description of the syndicate

The Joint Lead Managers to the Offer are Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited.

The Co-Managers to the Offer are JBWere Limited and Macquarie Equities Limited. The Co-Managers are retail affiliates of the Joint Lead Managers. See Section 7.2.1 for information on the fees the Co-Managers will receive.

10.11 Summary of Australian tax issues for Australian tax resident investors

10.11.1 Taxation considerations

The following tax comments provide a general summary of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus.

The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation entities that hold their Shares on capital account.

This summary does not consider the consequences for foreign tax resident Shareholders, insurance companies, banks, 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 Division 230 of the Income Tax Assessment Act 1997 ("Taxation of Financial Arrangements" or "TOFA" regime). Shareholders who are subject to TOFA should obtain their own tax advice as to the implications under TOFA (if any).

This summary is based on the Income Tax Assessment Act 1936, the Income Tax Assessment Act 1997, the A New Tax System (Goods and Services Tax) Act 1999, applicable case law and published Australian Taxation Office rulings, determinations and administrative practice in force as at the Prospectus Date. This summary does not take into account the tax law of countries other than Australia.

This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. Australian tax laws are complex. The taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances. Shareholders should seek professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act 2001. This summary is confined to taxation issues and is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments. The partnership of Ernst & Young is not required to hold an Australian Financial Services License under the Corporations Act 2011 to provide you with this taxation advice

Ernst & Young have not caused and takes no responsibility for the publication of any part of the Prospectus, other than this section itself.

10.11.2 Income tax treatment of dividends received by Australian tax resident Shareholders

10.11.2.1 Australian tax resident individuals and complying superannuation entities

Where dividends on a Share are paid by the Company, those dividends will 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 credit attached to that dividend. The rate of tax payable by each Australian investor that is an individual will depend on the individual circumstances of the investor and his/her prevailing marginal rate of income tax. Such Shareholders should be entitled to a tax offset equal to the franking credit 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 will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

10.11.2.2 Corporate shareholders

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

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

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

10.11.2.3 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 credit 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.

10.11.2.4 Shares held at risk

The benefit of franking credits can be denied where a Shareholder is not a 'qualified person' in which case the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a qualified person, a Shareholder must satisfy the holding period rule and, if necessary, the related payment rule. The holding period rule requires a Shareholder to hold the Shares 'at risk' for more than 45 days continuously, measured as the period commencing the day after the Shareholder acquires the Shares and ending on the 45th day after the Shares become ex-dividend. The date the Shares are acquired and disposed of are ignored for the purposes of determining the 45 day period. 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.

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 A$5,000. Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the Shareholder has made, or is under an obligation to make, a related payment in relation to a dividend paid by the Company. The related payment rule requires the Shareholder to have held the Shares at risk for a period commencing on the 45th day before, and ending on the 45th day after the day, the Shares become ex-dividend. Practically, this should not impact Shareholders who continue to hold Shares and also do not pass the benefit of the dividend to another person. Shareholders should obtain their own tax advice to determine if these requirements have been satisfied.

On 14 May 2013, the Commonwealth Government announced changes that will apply to 'dividend washing' arrangements and the amendments are proposed to be made through the 45 day holding period rules. No legislation has yet been released in respect of this change. Shareholders should consider the impact of this proposed change given their own personal circumstances.

10.11.3 Capital gains tax ("CGT") 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 will 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 Share). In the case of an arm's length on-market sale, the capital proceeds will 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 more than 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.

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A capital loss will 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 assessable income.

10.11.4 Tax file numbers ("TFN")

Shareholders are not required to quote their TFN to the Company. However, if a valid TFN or exemption details are not provided, Australian tax will be required to be deducted by the Company from distributions and/or dividends at the maximum marginal tax rate plus 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 Australian Business Number instead of their TFN. Non-residents are exempt from this requirement.

10.11.5 GST implications

Shareholders should not be liable for GST in respect of their acquisition of the Shares. 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.

10.11.6 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.

10.11.7 Employee Award Offer

The Company will provide a general summary of Australian tax issues relating to the Employee Award Offer to Australian Eligible Employees in the separate offer letter.

10.12 Summary of New Zealand tax issues for New Zealand tax resident investors

10.12.1 Taxation considerations

The following tax comments provide a general summary of certain New Zealand income tax and GST issues for New Zealand tax resident shareholders who acquire Shares under this Prospectus.

The categories of Shareholders considered in this summary are limited to New Zealand tax residents who hold the Shares in their own name and on capital account. Whether the Shares are ultimately held on capital account (as opposed to revenue account or as trading stock) may depend on the type of shareholder involved and their specific circumstances.

This summary does not consider the consequences for non-New Zealand tax resident Shareholders, Shareholders that hold their Shares on revenue account or carry on a business of trading in shares or Shareholders who are exempt from New Zealand tax.

This summary is based on the Income Tax Act 2007 (NZ) and the Goods and Services Tax Act 1985 (NZ), applicable case law and interpretations in force at the time of issue of this Prospectus. This summary does not take into account tax laws of countries other than New Zealand.

This summary is general in nature and is not intended to be an authoritative or complete analysis of the applicable law. New Zealand tax laws are complex, and the tax laws and their interpretation may change. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances. Shareholders must seek their own tax advice on the New Zealand tax implications of acquiring, holding or disposing of the Shares, taking into account their own specific circumstances, and should not rely on the comments provided below.

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10.12.2 Income tax treatment of dividends received by New Zealand tax resident Shareholders

New Zealand tax resident Shareholders that are individuals, trustees of a trust or portfolio corporate shareholders (those holding less than 10% shareholding interests in the Company) will generally be required to include in their assessable income the dividend actually received (before the deduction of any applicable withholding taxes), together with any New Zealand imputation credits and withholding taxes attached to that dividend. New Zealand Shareholders would then be subject to tax at their applicable tax rate on the gross dividend amount (which includes the imputation credit and any applicable withholding taxes amount).

New Zealand Shareholders should be entitled to a tax offset equal to the New Zealand imputation credits attached to the dividend. The tax offset can be applied to reduce the tax payable on the New Zealand Shareholder's taxable income. Where the offset exceeds the tax payable on the New Zealand Shareholder's taxable income, excess imputation credits can be carried forward by the Shareholder as tax credits for utilisation in future income years (in the form of tax credits for individuals or losses for companies and trustees other than a Maori trustee).

Non-portfolio New Zealand corporate Shareholders (holding 10% or greater shareholding interests in the Company) will not be subject to income tax on any dividends received from the Company.

10.12.3 Franking credits/withholding tax

Australian withholding tax will apply for any unfranked dividends (but not for fully franked dividends). Should the Company be required to deduct withholding tax on any dividend it pays, New Zealand tax legislation allows a foreign tax credit to be claimed by the Shareholder in respect of that amount of overseas tax paid. However, the amount of the credit for the foreign tax is restricted to the amount of the New Zealand tax payable calculated under certain rules.

Foreign tax credits are non-refundable credits and, if not utilised in the income year to which they relate, will be forfeited.

New Zealand tax resident Shareholders are not entitled to a New Zealand tax credit for any Australian franking credits attached to dividends, but likewise are not taxed on the amount of any franking credits attached to dividends.

10.12.4 Triangular (Trans-Tasman) tax regime and dividend imputation

The Triangular (Trans-Tasman) tax regime allows an Australian tax resident company, such as the Company, to elect to maintain a New Zealand imputation credit account. Consequently, New Zealand taxes paid by the Company's New Zealand subsidiary could then result in New Zealand imputation credits being attached to dividends paid on the Shares. The imputation credits must be allocated to all Shareholders regardless of tax residence.

The Company and its relevant subsidiary intend to investigate the option to elect to enter into this regime and whether they will seek to maintain a New Zealand imputation credit account with respect to New Zealand taxes paid. If so elected, and the Company declares dividends with New Zealand imputation credits attached, all Shareholders would receive New Zealand imputation credits. The New Zealand Shareholders may then be entitled to use these imputation credits under New Zealand tax law to offset against their income tax liability (refer above). The level of New Zealand imputation credits available to be attached to the Shares would depend on the amount of New Zealand taxes paid. No decision to enter the Triangular (Trans-Tasman) tax regime has been made.

10.12.5 New Zealand income tax treatment of shareholding

New Zealand tax resident Shareholders may be taxed in respect of foreign shareholdings, including their Shares, under either:

- ordinary tax rules applying to Share investments; or
- New Zealand's Foreign Investment Fund ("FIF") regime.

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The FIF regime should not apply to the Shares on the basis that the Company meets the exemption criteria that:

- it is listed on the All Ordinaries in Australia, or another ASX approved index; and
- it is required by Australian tax law to maintain a franking account.

If for any reason the Company does not meet the listing requirement in any income year, a New Zealand tax resident Shareholder may be subject to the FIF regime in respect of their holding of the Shares. In the event that the FIF regime applies, then Shareholders should obtain professional tax advice.

It is therefore anticipated that New Zealand's ordinary tax rules will apply in which case only dividends received may be taxable (see above) or gains on disposal of the Shares, in limited circumstances (see below).

10.12.6 Disposal of Shares

Amounts derived by New Zealand tax resident Shareholders from the sale or disposal of the Shares should not be included in assessable income if the Shares are held on capital account. For completeness, Shareholders will be subject to tax on gains realised on the sale or disposal of Shares where:

- the Shareholder is in the business of dealing in shares; or
- the Shares were purchased or acquired under this Prospectus for the purpose of resale; or
- the Shares were purchased or acquired under this Prospectus as part of a profit-making undertaking or scheme; or
- the Shares are otherwise held on revenue account.

New Zealand Shareholders should seek their own tax advice about whether the proceeds from sale will be taxable.

10.12.7 Stamp duty

As there is no stamp duty in New Zealand, neither the acquisition nor disposal of Shares will attract stamp duty in New Zealand.

10.12.8 Goods and services tax

Under current New Zealand law, no GST liability should arise on either the issue of the Shares pursuant to the Offer or on the subsequent transfer of the Shares.

10.12.9 Employee Award Offer

The Company will provide a general summary of New Zealand tax issues relating to the Employee Award Offer to New Zealand Eligible Employees in the separate offer letter.

10.13 Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by Dick Smith. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

10.14 Governing law

This Prospectus and the contracts that arise from the acceptance of the applications and bids under this Prospectus are governed by the law applicable in New South Wales and each applicant and bidder submits to the exclusive jurisdiction of the courts of New South Wales.

10.15 Statement of Directors

The issue of this Prospectus has been authorised by each Director. Each Director has consented to lodgement of this Prospectus and issue of this Prospectus and has not withdrawn that consent.

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Appendix 1 Further accounting information

11

11. Appendix 1 – Further accounting information

11.1 Significant accounting policies relevant to the Financial Information

The following significant accounting policies have been adopted in the preparation of the Financial Information included in Section 5.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal companies) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that standard.

Discount on acquisition is measured as the excess of the fair value of the net acquisition-date amounts of the identifiable assets acquired and the liabilities assumed over the amount of consideration transferred.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(c) Revenue recognition

In general, revenue is recognised only when it is probable that the economic benefits comprising the revenue will flow to the entity, the flow can be reliably measured and the entity has transferred the significant risks and rewards of ownership.

In addition to these general criteria, specific revenue recognition criteria apply as follows:

- sales revenue represents the revenue earned from the provision of products to parties external to the Group. Sales revenue is only recognised when the significant risks and rewards of ownership of the products, including possession, have passed to the buyer and for services when a right to be compensated has been attained and the stage of completion of the contract can be reliably measured;

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- revenue from the sale of customer gift cards is recognised when the card is redeemed and the customer purchases the goods by using the card; and
- interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(d) Leasing

Operating leases – as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as deferred revenue. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(e) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation

(f) Foreign currencies

The financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Group are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items

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that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the investment.

The assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at monthly exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(g) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(h) Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences and tax losses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and tax losses can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

(i) Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

I. leasehold improvements 5-10 years

II. plant and equipment 5-10 years

III. IT equipment 3-5 years.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(j) Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell, and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include the purchase price of goods as well as transport, handling and other costs directly attributable to the acquisition of inventories less any applicable rebates and settlement discounts. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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11. Appendix 1 – Further accounting information

(l) Financial assets

The Group classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other gains and losses line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line item as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(m) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is measured at grant date using a Monte-Carlo simulation option pricing model performed by an independent valuer which models the future security price. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised.

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Appendix 2 Glossary

12

12. Appendix 2 – Glossary

Term	Meaning
1H2011	The six months ended 26 December 2010
1H2012	The six months ended 25 December 2011
1H2013	The six months ended 23 December 2012
1H2014	The six months ending 29 December 2013
1Q2014	The three months ended 29 September 2013
2H2011	The six months ended 26 June 2011
2H2012	The six months ended 24 June 2012
2H2013	The six months ended 30 June 2013
2H2014	The six months ending 29 June 2014
Acquisition	The acquisition on 26 November 2012 by Dick Smith Sub of DSE from Woolworths, pursuant to a share sale agreement dated 26 September 2012
Anchorage	Anchorage Capital Partners Pty Limited as trustee for Anchorage Capital Partners Trust A and Australian Executor Trustees Limited as trustee for Anchorage Capital Partners Trust B
Appendix	An appendix to this Prospectus
Application Form	The relevant form attached to or accompanying this Prospectus, including the online application form available at www.dicksmith.com.au, pursuant to which applicants apply for Shares
Application Monies	The amount accompanying an Application Form submitted by an applicant
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ABN 98 008 624 691 or the financial market operated by it, as the context requires
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (second edition)
ASX Settlement	ASX Settlement Pty Limited ABN 49 008 504 532
ASX Settlement Operating Rules	The operating rules of ASX Settlement and, to the extent that they are applicable, the operating rules of each of ASX and ASX Clear Pty Limited ABN 48 001 314 503
Auditor	Deloitte Touche Tohmatsu
AUD, A$, $ or **Australian dollar**	The lawful currency of the Commonwealth of Australia
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group Interpretations
Baden Shareholder	William Paul Wavish and Yvonne Denise Wavish as trustees of the Baden Superannuation Fund, being owners on the Prospectus Date of options over B class preference shares in Dick Smith Sub
Board or **Board of Directors**	The board of Directors
Bookbuild	The process managed by the Joint Lead Managers to determine the demand for Shares at the Offer Price under the Institutional Offer
Broker	Any ASX participating organisation selected by the Joint Lead Managers to participate in the Broker Firm Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian and New Zealand residents who are sophisticated or professional investors (within the meaning of sections 708(8) and 708(11) of the Corporations Act, respectively) or, following lodgement of this Prospectus, to Australian and New Zealand resident investors who are not Institutional Investors and have received a firm allocation of Shares from their Broker
Business Day	Has the meaning given in the Listing Rules
CEO	Chief Executive Officer

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12. Appendix 2 – Glossary

Term	Meaning
CGT	Capital gains tax
Chairman's List Invitation	The invitation under this Prospectus to selected investors in Australia and New Zealand nominated by the Chairman of the Company to participate in the Chairman's List Offer on a firm basis up to the allocation of Shares nominated by the Chairman of the Company
Chairman's List Offer	The component of the Retail Offer under which investors who have received a Chairman's List Invitation are invited to apply for Shares, as described in Section 8.5
CHESS	Clearing House Electronic Subregister System operated in accordance with the Corporations Act
CODB	Cost of doing business, which includes all expenses incurred other than the cost of goods sold, depreciation and amortisation. CODB is predominately made up of expenses associated with salaries and wages, marketing, occupancy, administration and support costs
Co-Manager	JBWere ABN 68 137 978 360 and Macquarie Equities Limited ABN 41 002 574 923
Company	Dick Smith Holdings Limited ACN 166 237 841
Constitution	The constitution of the Company
Corporations Act	Corporations Act 2001 (Cth)
Corporations Regulations	Corporations Regulations 2001 (Cth)
David Jones	David Jones Limited ABN 75 000 074 573
Dick Smith	Prior to the Acquisition, DSE and its subsidiaries; prior to Settlement, Dick Smith Sub and its subsidiaries; and after Settlement, the Company and its subsidiaries
Dick Smith Offer Information Line	1800 129 386 (within Australia) or +61 2 8767 1321 (outside Australia); from 7.30am to 8.30pm Sydney time, Monday to Friday (Business Days only)
Dick Smith Sub	Dick Smith Sub-Holdings Pty Limited (formerly Dick Smith Holdings Pty Limited) ACN 160 162 925
Dick Smith Sub Shareholder	The registered holder of Dick Smith Sub Shares
Dick Smith Sub Shares	Ordinary shares, A class preference shares and B class preference shares in Dick Smith Sub
Director	Each of the directors of the Company from time to time
DSE	DSE Holdings Pty Limited ACN 001 456 720
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Eligible Employees	All permanent full-time and permanent part-time employees of Dick Smith in Australia and New Zealand who have been employed by Dick Smith for at least 6 months as at 5.00pm Sydney time on 13 November 2013 (provided that they remain so employed at 4 December 2013) that are not eligible to participate in the LTIP
Eligible US Fund Manager	A dealer or other professional fiduciary organised, incorporated or (if an individual) resident in the United States that is acting for an account (other than an estate or trust) held for the benefit or account of persons that are not US Persons for which it has and is exercising, investment discretion, within the meaning of Rule 902(k)(2)(i) of Regulation S
Employee Award Offer	The invitation to Eligible Employees to apply for 300 Shares each for no consideration
Employee Award Offer Amount	An amount equal to the number of Eligible Employees who take up the Employee Award Offer multiplied by 300 Shares and the Offer Price
EPS	Earnings per share
Escrowed Shareholders	Has the meaning given in Section 8.9

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12. Appendix 2 – Glossary

Term	Meaning
Existing Ordinary Owners	The holders of ordinary Dick Smith Sub Shares. As at the Prospectus Date, Anchorage and LMA Investments owned ordinary Dick Smith Sub Shares as set out in Section 8.1.4
Existing Owners	The holders of Dick Smith Sub Shares
Expiry Date	The date which is 13 months after the Prospectus Date, after which no Shares will be issued under this Prospectus
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 by a further seven days after the end of this period
Financial Information	Has the meaning given in Section 5
Forecast Financial Information	Has the meaning given in Section 5
FX	Foreign exchange
FY2011	Financial year ended 26 June 2011
FY2012	Financial year ended 24 June 2012
FY2013	Financial year ended 30 June 2013
FY2014	Financial year ending 29 June 2014
FY2015	Financial year ending 30 June 2015
Goldman Sachs	Goldman Sachs Australia Pty Ltd ACN 006 797 897
Group	Means Dick Smith
GST	Goods and services tax
Historical Financial Information	Has the meaning given in Section 5
IFRS	International Financial Reporting Standards
Institutional Investor	An investor who is: ■ a person in Australia who is a wholesale client under Section 761G of the Corporations Act and either a sophisticated investor or professional investor under sections 708(8) and 708(11) of the Corporations Act; and ■ an institutional investor in certain other jurisdictions, as agreed between the Company and the Joint Lead Managers, to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing, registration or qualification with, or approval by, any governmental agency (except one with which the Company is willing, in its absolute discretion, to comply), in either case, provided that if such person is in the United States, it is only an Institutional Investor if it is an Eligible US Fund Manager
Institutional Offer	The invitation to bid for Shares made to Institutional Investors under this Prospectus to acquire Shares as described in Section 8.6
Investigating Accountant	Deloitte Corporate Finance Pty Limited ACN 003 833 127
Investigating Accountant's Report	The Investigating Accountant's Report set out in Section 9
Joint Lead Managers	Goldman Sachs Australia Pty Ltd ACN 006 797 897 and Macquarie Capital (Australia) Limited ABN 79 123 199 548
KPI	Key performance indicator
Lender	GE Commercial Corporation (Australia) Pty Ltd together with GE Commercial Finance NZ
LFL	Like for like, refers to sales generated from stores that have been open in the prior corresponding reporting period
Listing	The expected admission of the Company to the Official List

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12. Appendix 2 – Glossary

Term	Meaning
Listing Rules	The official listing rules of ASX
LMA Investments	LMA Investments Pty Limited ACN 161 250 719 as trustee of NL Abboud Trust, an entity associated with Nick Abboud
LMA Rights Forfeiture Deed	The Rights Forfeiture Deed Poll dated Wednesday, 13 November 2013 executed by Anchorage in favour of LMA Investments under which Anchorage has offered to pay LMA Investments $6 million in consideration for LMA Investments forfeiting its rights to receive consideration in the form of cash for its ordinary shares in Dick Smith Sub under the Sale Deed
LTIP	The Company's long term incentive plan, as amended by the Company from time to time
Macquarie	Macquarie Group Limited ABN 94 122 169 279 or its applicable subsidiary or subsidiaries which are party to the relevant agreement or arrangement with the Company, other than Macquarie Capital and its role as a Joint Lead Manager and as an underwriter
Macquarie Capital	Macquarie Capital (Australia) Limited ABN 79 123 199 548
Management Shareholders	34 employees of the Dick Smith business, and LMA Investments, being beneficial owners on the Prospectus Date of A class preference shares in Dick Smith Sub
Myer	Myer Holdings Limited ABN 14 119 085 602 or its predecessor entities or their subsidiaries, as the context requires
Net Purchase Price	For the purpose of the Sale Deed, the Purchase Price less $50 million
New Facility	The revolving working capital facility provided the Lender
New Zealand Registrar	The New Zealand Registrar of Financial Service Providers established under the New Zealand Financial Service Providers (Registration and Dispute Resolution) Act 2008 or any other person established by law to replace the Registrar
Non-IFRS financial measures	Financial measures that do not have a standardised meaning prescribed by Australian Accounting Standards
NPAT	Net profit after tax
NZ Mutual Recognition Regulations	The New Zealand Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008
NZ Opt-in Notice	A written notice of the Company's intention to make the Offer under the NZ Mutual Recognition Regulations; required to be lodged with the New Zealand Registrar under Section 73(1)(c) of the Securities Act 1978 (NZ) and regulation 11 of the NZ Mutual Recognition Regulations
NZ Securities Laws	The Companies Act 1993 (NZ), the NZ Securities Regulations and the Securities Act 1978 (NZ), in each case as modified by relief from the requirements of those Acts and those Regulations by the NZ Mutual Recognition Regulations
NZ Securities Regulations	The New Zealand Securities Regulations 2009
NZD or **NZ$**	The lawful currency of New Zealand
NZFMA	New Zealand Financial Markets Authority
Offer	The invitation under this Prospectus to subscribe for Shares to be issued by the Company
Offer Documents	The documents issued or published by or on behalf of the Company in respect of the Offer, including this Prospectus, any Application Forms, any investor presentation used in connection with the Institutional Offer and any supplementary or replacement prospectus
Offer Price	The price payable for a Share under the Offer, being $2.20
Official List	Official list of entities that ASX has admitted to and not removed from listing
Omni-channel	Integrated retail across multiple channels including physical stores and digital platforms such as online and mobile
Options	Options over Shares granted pursuant to the LTIP

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12. Appendix 2 – Glossary

Term	Meaning
Original Prospectus	The Prospectus dated 14 November 2013 and lodged with ASIC on that date, and which this Prospectus replaces
pcp	Prior corresponding period, refers to the corresponding reporting quarter, half or year in the previous financial year
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus was lodged with ASIC, being Thursday, 21 November 2013
Purchase Price	For the purpose of the Sale Deed, the purchase price payable by the Company for all of the Dick Smith Sub Shares, which is calculated as the Offer Price multiplied by the number of Shares on issue following the Offer (being 236.5 million Shares), plus $15 million (being the estimated amount of excess cash in the Company following the Offer)
Regulation S	Regulation S promulgated under the United States Securities Act of 1993
Relevant Interest	Has the meaning given in the Corporations Act. In summary, a person has a relevant interest in a security if that person is the holder of the security or if that person has the power to control the voting or the disposal of the security
Retail Investor	An investor who is not an Institutional Investor
Retail Offer	The Broker Firm Offer, the Employee Award Offer and the Chairman's List Offer
Rights	Rights to Shares granted pursuant to the LTIP
Sale Deed	The Share Sale Deed Poll dated Wednesday, 13 November 2013 executed by the Company in favour of all of the Dick Smith Sub Shareholders as at Settlement
Sale Deed Offer	The offer by the Company to acquire all of the shares in Dick Smith Sub under the Sale Deed
Securities Act	United States Securities Act of 1993
Settlement	The settlement in respect of the Shares the subject of the Offer occurring under the Underwriting Agreement and associated settlement support arrangements
Share	A fully paid ordinary share in the Company
Share Registry	Link Market Services Limited ABN 54 083 214 537
Shareholder	The registered holder of a Share
SKU	Stock-keeping unit
TFR	Total fixed remuneration
Underwriting Agreement	The underwriting agreement between the Company and the Joint Lead Managers, as described in Section 10.5
US Person	Has the meaning given in Rule 902(k) of Regulation S
US$	The lawful currency of the United States of America
VAT	Value added tax
Woolworths	Woolworths Limited ABN 88 000 014 675

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dick smith
dicksmith.com.au
ACN 166 237 841

Broker Code

Adviser Code

Broker Firm Offer Application Form

Applicants under the Broker Firm Offer must contact their Broker for information on how to submit this Application Form and Application Monies.

This Application Form relates to the prospectus dated 21 November 2013 ("Prospectus") issued by Dick Smith Holdings Limited ACN 166 237 841 ("Dick Smith" or "Company") in relation to the initial public offering of fully paid ordinary shares in Dick Smith ("Shares"). The Prospectus is a replacement prospectus and replaces the prospectus dated 14 November 2013 which was lodged with the Australian Securities and Investments Commision on that date. The expiry date of the Prospectus is 13 months after 21 November 2013. This Application Form should be read in conjunction with the Prospectus. Capitalised words and certain terms used in this Application Form have the meanings given to them in the Prospectus.

This Application Form does not constitute an offer of securities in the United States or to any person to whom it would not be lawful outside Australia or New Zealand. The securities referred to herein have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "US Securities Act") or under the securities laws of any state or other jurisdiction of the United States. Any securities described in, or sold pursuant to, this Application Form may not be offered or sold in the United States absent registration under the US Securities Act or pursuant to an applicable exemption from registration, or to any person to whom it would not be lawful outside Australia or New Zealand.

The Application Form must not be released or distributed in the United States, or in any jurisdiction outside of Australia or New Zealand where distribution may be restricted by law.

This Application Form is an important document. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser without delay. The Prospectus contains information relevant to a decision about investing in Shares. You should read the entire Prospectus carefully before completing this Application Form and applying for Shares. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by the Prospectus.

The closing date of the Broker Firm Offer is 12:00pm (Sydney time) on Monday, 2 December 2013.

A Shares applied for — at **A$2.20** — **B** Application Monies **A$**

(minimum A$2,000, thereafter in multiples of A$500 or the nearest whole number of Shares)

C

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

Applicant #1 – Surname/Company Name

Title | First Name | Middle Name

Joint Applicant #2 – Surname

Title | First Name | Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

D

TFN/ABN/Exemption Code

First Applicant | Joint Applicant #2 | Joint Applicant #3

TFN/ABN type – if NOT an individual, please mark the appropriate box ☐ Company ☐ Partnership ☐ Trust ☐ Super Fund

E

PLEASE COMPLETE ADDRESS DETAILS

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

Unit Number/Level | Street Number | Street Name

Suburb/City or Town | State | Postcode

Email address (only for purpose of electronic communication of shareholder information)

F CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)

X

Please note: that if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN and any Shares issued as a result of the Offer will be held on the issuer sponsored sub-register.

G Telephone Number where you can be contacted during Business Hours | Contact Name (PRINT)

( )

Cheques or bank drafts should be drawn up according to the instructions given by your Broker.

H Cheque or Bank Draft Number | BSB - | Account Number

Total Amount **A$**

LODGEMENT INSTRUCTIONS

You must return your Application Form so it is received by your Broker by the deadline set out in their offer to you.

Registry communications to: Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 Australia

Telephone (within and outside Australia): +61 1300 554 474

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Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Dick Smith Holdings Limited ACN 166 237 841 ("Dick Smith" or "Company") Shares. Further details about the Shares are contained in the prospectus dated 21 November 2013 issued by Dick Smith ("Prospectus"). The Prospectus is a replacement prospectus and replaces the prospectus dated 14 November 2013 which was lodged with the Australian Securities and Investments Commision on that date. The Prospectus will expire 13 months after 21 November 2013. Dick Smith will send paper copies of the Prospectus, any supplementary prospectus and the Application Form, free of charge on request to eligible investors during the Offer period. If eligible, you can request a copy by telephoning the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or +61 2 8767 1321 (from outside Australia), between 7:30am to 8:30pm (Sydney time), Monday to Friday.

The Corporations Act prohibits any person from passing onto another person the Application Form in relation to the offer of Shares, unless the Application Form is attached to or accompanies a complete and unaltered copy of the Prospectus (or an electronic copy of this Prospectus). A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary or replacement prospectus. Applications for Shares will only be accepted if made on an Application Form that was attached to or accompanies the Prospectus (or in its paper copy form which may be downloaded in its entirety with the electronic form of the Prospectus, at dicksmithholdings.com.au/investor-centre). This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

A Insert the number of Shares you wish to apply for. The Application must be for a minimum of A$2,000 worth of Shares, and in multiples of A$500 thereafter (or the nearest whole number of Shares). You may be issued all of the Shares applied for or a lesser number.

B Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the Offer Price of $2.20. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.

C Write the full name you wish to appear on the register of Shares and on the statement of shareholding. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title. Applicants using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHESS) participants should complete their name identically to that presently registered in the CHESS system.

D Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your application. However, if these are not provided, Dick Smith will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

E Please enter your postal address for all correspondence. All communications to you from Dick Smith and the Share Registry will be mailed to the person(s) and address as shown. For joint applicants, only one address can be entered.

F Dick Smith has applied to ASX to participate in CHESS, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of ASX. The Company will operate an electronic CHESS subregister of Share holdings and an electronic issuer sponsored subregister of Share holdings. Together the two subregisters will make up the Company's principal register of Shares. The Company will not be issuing certificates to applicants in respect of Shares issued. If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares issued to you under this Application on the CHESS subregister, enter your CHESS Holder Identification Number (HIN). Otherwise, leave this section blank and on the issue date, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application Form.

H Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.

If you receive a firm allocation of Shares from your Broker, make your cheque payable to your Broker in accordance with their instructions.

Acknowledgements: I/we declare that by lodging this Application Form, I/we represent and warrant that I/we have read and understood the Prospectus to which this Application Form relates. By lodging this Application Form, I/we represent, warrant and agree that I/we am/are and each person on whose behalf I am/we are submitting this Application Form is named on the front of this Application Form and has a registered address in Australia or New Zealand and is not located in the United States and is not acting for the account or benefit of any person in the United States. I/we understand that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States, and accordingly, the Shares may not be offered, sold or resold in the United States or in any other jurisdiction outside Australia or New Zealand except in transactions exempt from or not subject to registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which such Shares are offered and sold. I/we have not, and I/we agree that I/we will not, send this Application Form or any materials relating to the Offer to any person in the United States; and I/we hereby authorise Dick Smith to complete and execute any documents necessary to effect transfer or issue of any Shares.

Declaration: By submitting this Application Form, I/we declare, represent and warrant that this Application Form is completed and lodged in accordance with the Prospectus and subject to the declarations/statements in the Prospectus including, without limitation, those set out in Section 8.4 and this Application Form and declare that all declarations, details and statements made by me/us are complete and accurate. I/we agree to be bound by the Constitution of Dick Smith and the terms of the Offer and agree to the issue to me/us of any number of Shares equal to or less than the value indicated in section A above which may be issued to me/us pursuant to the Prospectus including, without limitation, those set out in Section 8.4. It is not necessary to sign the Application Form. Any application may be rejected without giving reasons, including where the Application Form is not properly completed or where a cheque submitted with the Application Form is dishonoured. If your Application Form is not completed correctly, is late or if the accompanying cheque is for the wrong amount, it may still be traded as valid. The decision as to whether to treat your application as valid, and how to construe, amend or complete it, is final. An application may be accepted in part only and applicants may be allocated fewer Shares than the applicant applied for. The decision on the number of Shares to be allocated to you is final. An applicant will not, however, be treated as having offered to subscribe for a higher dollar value of Shares than are indicated on the Application Form. The allocation of firm stock to Brokers was determined by the Joint Lead Managers, in agreement with Dick Smith. It will be a matter for the Brokers as to how they make firm allocations among their broker clients, and they (and not Dick Smith or the Joint Lead Managers) will be responsible for ensuring that broker clients who have received a firm allocation from them receive the relevant Shares. If an Application Form is rejected, or is accepted in part only, the applicant will receive a refund of all or part of their Application Monies without interest (as applicable). No refunds pursuant to rounding will be provided.

Lodgement instructions: Applicants who receive a firm offer of Shares from their Broker (as described in Section 8 of the Prospectus) should return their completed Application Form and Application Monies to the Broker from whom they received their firm offer of Shares (unless instructed otherwise). The Broker Firm Offer opens at 9:00am (Sydney time) on 21 November 2013 and is expected to close at 12:00pm (Sydney time) on Monday, 2 December 2013. Applications must be received by the Broker before that time or any earlier date as determined by your Broker. Applicants must not return this Application Form to the Share Registry.

Neither Link Market Services Limited nor Dick Smith accepts any responsibility if you lodge the Application Form at any other address or by any other means. If you have any enquiries concerning your Application Form, please contact your Broker or the Dick Smith Offer Information Line on 1800 129 386 (toll free within Australia), open from 7:30am to 8:30pm (Sydney time), Monday to Friday. If you are eligible to participate in the Offer and are calling from outside Australia please call +61 2 8767 1321 between 7:30am to 8:30pm (Sydney time), Monday to Friday.

Correct Forms of Registrable Names: Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

Privacy statement: Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website www.linkmarketservices.com.au.

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dick smith
dicksmith.com.au
ACN 166 237 841

Broker Code

Adviser Code

Broker Firm Offer Application Form

Applicants under the Broker Firm Offer must contact their Broker for information on how to submit this Application Form and Application Monies.

This Application Form relates to the prospectus dated 21 November 2013 ("Prospectus") issued by Dick Smith Holdings Limited ACN 166 237 841 ("Dick Smith" or "Company") in relation to the initial public offering of fully paid ordinary shares in Dick Smith ("Shares"). The Prospectus is a replacement prospectus and replaces the prospectus dated 14 November 2013 which was lodged with the Australian Securities and Investments Commision on that date. The expiry date of the Prospectus is 13 months after 21 November 2013. This Application Form should be read in conjunction with the Prospectus. Capitalised words and certain terms used in this Application Form have the meanings given to them in the Prospectus.

This Application Form does not constitute an offer of securities in the United States or to any person to whom it would not be lawful outside Australia or New Zealand. The securities referred to herein have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "US Securities Act") or under the securities laws of any state or other jurisdiction of the United States. Any securities described in, or sold pursuant to, this Application Form may not be offered or sold in the United States absent registration under the US Securities Act or pursuant to an applicable exemption from registration, or to any person to whom it would not be lawful outside Australia or New Zealand.

The Application Form must not be released or distributed in the United States, or in any jurisdiction outside of Australia or New Zealand where distribution may be restricted by law.

This Application Form is an important document. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser without delay. The Prospectus contains information relevant to a decision about investing in Shares. You should read the entire Prospectus carefully before completing this Application Form and applying for Shares. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by the Prospectus.

The closing date of the Broker Firm Offer is 12:00pm (Sydney time) on Monday, 2 December 2013.

A Shares applied for — at **A$2.20** — **B** Application Monies **A$**

(minimum A$2,000, thereafter in multiples of A$500 or the nearest whole number of Shares)

C

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

Applicant #1 – Surname/Company Name

Title | First Name | Middle Name

Joint Applicant #2 – Surname

Title | First Name | Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

D

TFN/ABN/Exemption Code

First Applicant | Joint Applicant #2 | Joint Applicant #3

TFN/ABN type – if NOT an individual, please mark the appropriate box ☐ Company ☐ Partnership ☐ Trust ☐ Super Fund

E

PLEASE COMPLETE ADDRESS DETAILS

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

Unit Number/Level | Street Number | Street Name

Suburb/City or Town | State | Postcode

Email address (only for purpose of electronic communication of shareholder information)

F CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)

X

Please note: that if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN and any Shares issued as a result of the Offer will be held on the issuer sponsored sub-register.

G Telephone Number where you can be contacted during Business Hours | Contact Name (PRINT)

( )

Cheques or bank drafts should be drawn up according to the instructions given by your Broker.

H Cheque or Bank Draft Number | BSB - | Account Number

Total Amount **A$**

LODGEMENT INSTRUCTIONS

You must return your Application Form so it is received by your Broker by the deadline set out in their offer to you.

Registry communications to: Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 Australia

Telephone (within and outside Australia): +61 1300 554 474

DSH BRO001

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Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Dick Smith Holdings Limited ACN 166 237 841 ("Dick Smith" or "Company") Shares. Further details about the Shares are contained in the prospectus dated 21 November 2013 issued by Dick Smith ("Prospectus"). The Prospectus is a replacement prospectus and replaces the prospectus dated 14 November 2013 which was lodged with the Australian Securities and Investments Commision on that date. The Prospectus will expire 13 months after 21 November 2013. Dick Smith will send paper copies of the Prospectus, any supplementary prospectus and the Application Form, free of charge on request to eligible investors during the Offer period. If eligible, you can request a copy by telephoning the Dick Smith Offer Information Line on 1800 129 386 (within Australia) or +61 2 8767 1321 (from outside Australia), between 7:30am to 8:30pm (Sydney time), Monday to Friday.

The Corporations Act prohibits any person from passing onto another person the Application Form in relation to the offer of Shares, unless the Application Form is attached to or accompanies a complete and unaltered copy of the Prospectus (or an electronic copy of this Prospectus). A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary or replacement prospectus. Applications for Shares will only be accepted if made on an Application Form that was attached to or accompanies the Prospectus (or in its paper copy form which may be downloaded in its entirety with the electronic form of the Prospectus, at dicksmithholdings.com.au/investor-centre). This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

A Insert the number of Shares you wish to apply for. The Application must be for a minimum of A$2,000 worth of Shares, and in multiples of A$500 thereafter (or the nearest whole number of Shares). You may be issued all of the Shares applied for or a lesser number.

B Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the Offer Price of $2.20. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.

C Write the full name you wish to appear on the register of Shares and on the statement of shareholding. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title. Applicants using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHESS) participants should complete their name identically to that presently registered in the CHESS system.

D Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your application. However, if these are not provided, Dick Smith will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

E Please enter your postal address for all correspondence. All communications to you from Dick Smith and the Share Registry will be mailed to the person(s) and address as shown. For joint applicants, only one address can be entered.

F Dick Smith has applied to ASX to participate in CHESS, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of ASX. The Company will operate an electronic CHESS subregister of Share holdings and an electronic issuer sponsored subregister of Share holdings. Together the two subregisters will make up the Company's principal register of Shares. The Company will not be issuing certificates to applicants in respect of Shares issued. If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares issued to you under this Application on the CHESS subregister, enter your CHESS Holder Identification Number (HIN). Otherwise, leave this section blank and on the issue date, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application Form.

H Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.

If you receive a firm allocation of Shares from your Broker, make your cheque payable to your Broker in accordance with their instructions.

Acknowledgements: I/we declare that by lodging this Application Form, I/we represent and warrant that I/we have read and understood the Prospectus to which this Application Form relates. By lodging this Application Form, I/we represent, warrant and agree that I/we am/are and each person on whose behalf I am/we are submitting this Application Form is named on the front of this Application Form and has a registered address in Australia or New Zealand and is not located in the United States and is not acting for the account or benefit of any person in the United States. I/we understand that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States, and accordingly, the Shares may not be offered, sold or resold in the United States or in any other jurisdiction outside Australia or New Zealand except in transactions exempt from or not subject to registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which such Shares are offered and sold. I/we have not, and I/we agree that I/we will not, send this Application Form or any materials relating to the Offer to any person in the United States; and I/we hereby authorise Dick Smith to complete and execute any documents necessary to effect transfer or issue of any Shares.

Declaration: By submitting this Application Form, I/we declare, represent and warrant that this Application Form is completed and lodged in accordance with the Prospectus and subject to the declarations/statements in the Prospectus including, without limitation, those set out in Section 8.4 and this Application Form and declare that all declarations, details and statements made by me/us are complete and accurate. I/we agree to be bound by the Constitution of Dick Smith and the terms of the Offer and agree to the issue to me/us of any number of Shares equal to or less than the value indicated in section A above which may be issued to me/us pursuant to the Prospectus including, without limitation, those set out in Section 8.4. It is not necessary to sign the Application Form. Any application may be rejected without giving reasons, including where the Application Form is not properly completed or where a cheque submitted with the Application Form is dishonoured. If your Application Form is not completed correctly, is late or if the accompanying cheque is for the wrong amount, it may still be traded as valid. The decision as to whether to treat your application as valid, and how to construe, amend or complete it, is final. An application may be accepted in part only and applicants may be allocated fewer Shares than the applicant applied for. The decision on the number of Shares to be allocated to you is final. An applicant will not, however, be treated as having offered to subscribe for a higher dollar value of Shares than are indicated on the Application Form. The allocation of firm stock to Brokers was determined by the Joint Lead Managers, in agreement with Dick Smith. It will be a matter for the Brokers as to how they make firm allocations among their broker clients, and they (and not Dick Smith or the Joint Lead Managers) will be responsible for ensuring that broker clients who have received a firm allocation from them receive the relevant Shares. If an Application Form is rejected, or is accepted in part only, the applicant will receive a refund of all or part of their Application Monies without interest (as applicable). No refunds pursuant to rounding will be provided.

Lodgement instructions: Applicants who receive a firm offer of Shares from their Broker (as described in Section 8 of the Prospectus) should return their completed Application Form and Application Monies to the Broker from whom they received their firm offer of Shares (unless instructed otherwise). The Broker Firm Offer opens at 9:00am (Sydney time) on 21 November 2013 and is expected to close at 12:00pm (Sydney time) on Monday, 2 December 2013. Applications must be received by the Broker before that time or any earlier date as determined by your Broker. Applicants must not return this Application Form to the Share Registry.

Neither Link Market Services Limited nor Dick Smith accepts any responsibility if you lodge the Application Form at any other address or by any other means. If you have any enquiries concerning your Application Form, please contact your Broker or the Dick Smith Offer Information Line on 1800 129 386 (toll free within Australia), open from 7:30am to 8:30pm (Sydney time), Monday to Friday. If you are eligible to participate in the Offer and are calling from outside Australia please call +61 2 8767 1321 between 7:30am to 8:30pm (Sydney time), Monday to Friday.

Correct Forms of Registrable Names: Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
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Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
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Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

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Corporate directory

Dick Smith Holdings Limited
2 Davidson Street
Chullora NSW 2190
Australia

Joint Lead Manager
Goldman Sachs Australia Pty Ltd
Level 46, 1 Farrer Place
Sydney NSW 2000
Australia

Joint Lead Manager
Macquarie Capital (Australia) Limited
No. 1 Martin Place
Sydney NSW 2000
Australia

Australian legal adviser to the Offer
Minter Ellison
Aurora Place, 88 Phillip Street
Sydney NSW 2000
Australia

Adviser to the Board in relation to the Offer
Aquasia Pty Ltd
Level 9, 9 Castlereagh Street
Sydney NSW 2000
Australia

Investigating Accountant
Deloitte Corporate Finance Pty Limited
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Auditor
Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Co-Manager
JBWere Limited
Level 16, 101 Collins Street
Melbourne VIC 3000
Australia

Co-Manager
Macquarie Equities Limited
1 Shelley Street
Sydney NSW 2000
Australia

Share registry
Link Market Service Limited
Level 12, 680 George Street
Sydney NSW 2000
Australia

Dick Smith Offer Information Line
Number: 1800 129 386 (within Australia) or +61 2 8767 1321 (outside Australia)
Hours of operation: 7.30am to 8.30pm (Sydney time)
Monday to Friday (Business Days only)

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dicksmith.co.nz