

## CIRCULAR TO CREDITORS

25 August 2017

**RE: Surfstitch Group Limited (Administrators Appointed) ACN 602 288 004 ('SGL')  
Surfstitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 ('SHPL')  
(‘the Companies’)**

Dear Sir/Madam

### Appointment of Administrators

John Park, Quentin Olde and Joseph Hansell were appointed Administrators of Surfstitch Group Limited and Surfstitch Holdings Pty Limited on 24 August 2017 pursuant to Section 436A of the *Corporations Act 2001 (Cth)* ('the Act').

The appointment of Administrators is **only** over Surfstitch Group Limited ('SGL'), the ASX listed entity, and Surfstitch Holdings Pty Limited ('SHPL'), the holding entity and owner of the operating subsidiaries.

The Surfstitch Group's on-line businesses, SurfStitch (AUS), SurfDome (UK), and Swell (US), and publishing businesses MagicSeaweed (UK) and Stab (AUS & US) ('collectively referred to as **'the operating subsidiaries'**') are **unaffected** by the Appointments and will continue to trade as normal. Customers will continue to receive their merchandise as usual and suppliers and employees will be paid in the ordinary course of business.

**\*Attached as Figure 1** is a chart which details the Surfstitch corporate structure and the relationship between the ASX listed entity and the holding entity which are both in Administration and the operating businesses which continue to trade as normal.

You are receiving this correspondence because the records indicate you may be a creditor of the Companies.

### Trading

SHPL and SGL do not trade in their own right. They are the holding and ultimate holding company, respectively of the operating subsidiaries and employ a number of the Group's senior management. These operating businesses detailed in **Figure 1** will continue to operate and trade as normal.

We are currently assessing the financial position of the Companies with a view to developing a restructuring plan for consideration by creditors. Whilst this assessment is continuing, we intend to continue the ordinary operations of the Companies as we consider this to be in the best interests of all parties concerned and ask for your support in this regard.

In this regard, if you hold any supply account with SGL or SHPL, please contact our office to arrange continued supply.

### **Pre-Appointment Claims**

The operating subsidiaries will continue to operate as normal.

As Administrators, we are not in a position to discharge debts incurred by the SGL and SHPL prior to the date of our appointment. These debts rank as unsecured claims against the Companies. Payment of these amounts is dependent on the outcome of the Administration. In order to assist in determining the financial position of the Companies, please forward details of the amount owing to you by the Companies as at the date of our appointment at your earliest convenience.

Payments made by the Administrators must be applied against debts incurred by the Administrator and cannot be applied against any pre-appointment debt of the Companies to you.

### **Meeting of Creditors**

The First Meeting of Creditors pursuant to Section 436E of the Act will be held on 5 September 2017 at Surfstitch Head Office, 225 Burleigh Connection Road, Burleigh Heads QLD 4220, commencing at 2.00pm. Please find enclosed Form 529A being the 'Notice of First Meeting of Creditors of Companies under Administration'. The purpose of this meeting is to determine:

- a. whether to appoint a committee of creditors; and
- b. if so, who are to be the committee's members.

Also enclosed is a Form 532, Appointment of Proxy. If you intend to appoint another person to act on your behalf at the meeting, or you are a corporate creditor, you are required to complete and return the enclosed proxy form appointing your representative to FTI Consulting, 22 Market Street BRISBANE QLD 4000 or by fax (07) 3225 4999 no later than 4:00pm on 4 September 2017.

If you are representing a Company, please ensure that either the proxy is executed pursuant to Section 127 of the Act or your representative is appointed pursuant to Section 250D of the Act, otherwise you will not be entitled to vote at the meeting.

Creditors are required to lodge proofs of debt no later than 4:00pm on 4 September 2017, failing which they may be excluded from voting at the meeting. A Form 535, Formal Proof of Debt or Claim is attached for this purpose. Proofs of Debt may be sent to FTI Consulting, 22 Market Street BRISBANE QLD 4000, faxed to (07) 3225 4999 or emailed to [surfstitch\\_enquiries@fticonsulting.com](mailto:surfstitch_enquiries@fticonsulting.com).

A second meeting of creditors will be held, at which creditors will vote on the future of the Companies. Details of that meeting and a Report to Creditors will be sent to you in due course.

Section 600G of the Corporations Act permits electronic notification to creditors of certain notices or documents. If you would like to nominate to receive electronic notification, please complete the relevant section on the proof of debt form.

### **Administrators' Background**

We are all Registered Liquidators. Between us we have fifty-eight (58) years' insolvency experience. We are all either Senior Managing Directors or Managing Directors in the firm FTI Consulting, which is an independent, tier one professional services firm specialising in corporate recovery, corporate advisory and real estate services. Our personal profiles as well as detailed information about FTI Consulting can be found on our website [www.fticonsulting.com](http://www.fticonsulting.com). If you do not have internet access and would like further background information, please contact our office.

### **Declaration of Independence, Relevant Relationships and Indemnities**

Please refer to the **\*attached** Declaration of Independence, Relevant Relationships and Indemnities.

### **Administrators' Remuneration and Disbursements**

Please refer to the **\*attached** Initial Advice to Creditors – Basis of Remuneration.

**\*Attached** is an information sheet titled 'Insolvency Information for Directors, Employees, Creditors and Shareholders'. Further information sheets may be found at [www.asic.gov.au/insolvencyinfosheets](http://www.asic.gov.au/insolvencyinfosheets).

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Should you require any further information, please contact Paris Parasadi on (07) 3225 4900 or [surfstitch\\_enquiries@fticonsulting.com](mailto:surfstitch_enquiries@fticonsulting.com).

Yours faithfully  
**FTI Consulting**

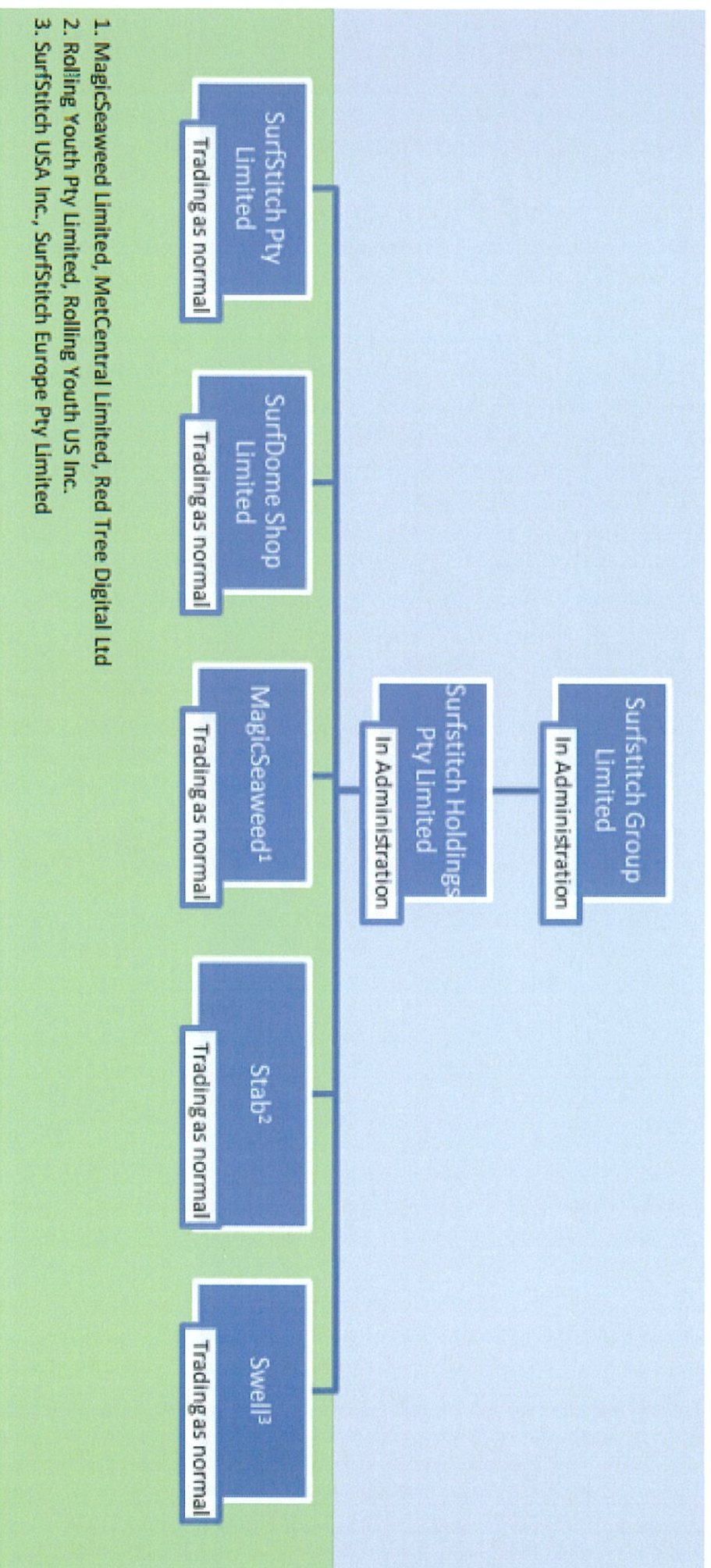
A handwritten signature in blue ink, appearing to read 'John Park', with a stylized flourish at the end.

**John Park**  
**Administrator**

**\*Attach.**

Our Ref: PYP\_457365.0003r1.doc

**Figure 1: Group Corporate Structure**



Form 529A

*Corporations Act 2001 (Cth)*

NOTICE OF FIRST MEETING OF CREDITORS  
OF COMPANY UNDER ADMINISTRATION

SURFSTITCH GROUP LTD (ADMINISTRATORS APPOINTED)  
ACN 602 288 004

SURFSTITCH HOLDINGS PTY LIMITED (ADMINISTRATORS APPOINTED)  
ACN 601 114 603

(the Companies)

NOTICE IS HEREBY GIVEN that John Park, Quentin Olde and Joseph Hansell of FTI Consulting, 22 Market Street, Brisbane, Queensland, were appointed Administrators of the above Companies on 24 August 2017 pursuant to Section 436A of the *Corporations Act 2001 (Cth)*.

NOTICE IS ALSO GIVEN that the first meeting of creditors of the Company will be held on 5 September 2017 at Surfstitch Head Office, 225 Burleigh Connection Road, Burleigh Heads QLD 4220, commencing at 2.00pm.

**AGENDA**

1. The purpose of the meeting is to determine:-
  - a) whether to appoint a Committee of Creditors; and
  - b) if so, who are to be the Committee's members.
  
2. At the meeting, creditors may also, by resolution:-
  - a) remove the Administrators from office; and
  - b) appoint someone else as Administrator(s) of the Companies.

Creditors wishing to vote at the meeting, who will not be attending in person or are a company, must complete and return a Proxy Form by no later than 4.00pm on the last business day prior to the meeting, by post to FTI Consulting, GPO Box 3127, Brisbane, QLD 4001 or by facsimile on (07) 3225 4999. A form of proxy is **\*attached**.

Dated this 25<sup>th</sup> day of August 2017



**John Park**  
**Administrator**

Our Ref: PYP\_457365.0001n1.doc

Form 535

Corporations Act 2001 (Cth)

Surfstitch Group Limited (Administrators Appointed)  
ACN 602 288 004

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To: The Administrators of Surfstitch Group Limited .....

1. This is to state that the company was on 24 August 2017 and still is, justly and truly indebted:-

TO: .....  
(name of creditor)

OF: .....  
(address of creditor)

FOR: .....  
(amount owed to creditor)

AND ..... cents.

Particulars of the debt are:-

<u>Date</u> (insert date when debt arose)	<u>Consideration</u> (state how the debt arose & <u>attach supporting invoices &amp; statements of account</u> )	<u>Amount (\$)</u>	<u>Remarks</u> (include details of voucher substantiating payment)
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2. To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it except for the following: (insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

<u>Date</u>	<u>Drawer</u>	<u>Acceptor</u>	<u>Amount (\$...c)</u>	<u>Due Date</u>
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\*3. I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

\*3. I am the creditor's agent authorised in writing to make this statement in writing. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Dated this \_\_\_\_\_ day of \_\_\_\_\_

Signature .....

Name .....

Address .....

\*Delete if not applicable.

Corporations Act 2001 (Cth)

Surfstitch Holdings Pty Limited (Administrators Appointed)  
ACN 601 114 603

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To: The Administrators of Surfstitch Holdings Pty Limited .....

3. This is to state that the company was on 24 August 2017 and still is, justly and truly indebted:-

TO: .....  
(name of creditor)

OF: .....  
(address of creditor)

FOR: .....  
(amount owed to creditor)

AND ..... cents.

Particulars of the debt are:-

<u>Date</u> (insert date when debt arose)	<u>Consideration</u> (state how the debt arose & <u>attach supporting invoices &amp; statements of account</u> )	<u>Amount (\$)</u>	<u>Remarks</u> (include details of voucher substantiating payment)
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4. To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it except for the following: (insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

<u>Date</u>	<u>Drawer</u>	<u>Acceptor</u>	<u>Amount (\$..c)</u>	<u>Due Date</u>
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\*3. I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

\*3. I am the creditor's agent authorised in writing to make this statement in writing. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Dated this \_\_\_\_\_ day of \_\_\_\_\_

Signature .....

Name .....

Address .....

\*Delete if not applicable.



APPOINTMENT OF PROXY	Form 532
Surfstitch Group Limited (Administrators Appointed) ACN 602 288 004 ("the Company")	Regulation 5.6.29 Corporations Act 2001 (Cth)

A. Insert Full Name and Contact Details (please print)

Given Name \_\_\_\_\_ Surname \_\_\_\_\_

Company Name \_\_\_\_\_ Telephone Number \_\_\_\_\_

Address \_\_\_\_\_

B. Appointment of a Proxy (please complete)

I/We, a creditor of the Company appoint:

\_\_\_\_\_ of \_\_\_\_\_

as my/our proxy, or in his/her absence \_\_\_\_\_, to vote at the meeting of creditors to be held on 5 September 2017 at Surfstitch Head Office, 225 Burleigh Connection Road, Burleigh Heads QLD 4220 at 2.00pm or at any adjournment of that meeting.

C. Voting by Your Proxy

Option 1: If appointed as a general proxy, as he/she determines on my/our behalf.

AND/OR

Option 2: If appointed as a special proxy for some or all resolutions, specifically in the manner set out below (please tick).

Resolution (please specify the particular resolution)	For	Against	Abstain
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D. Signature Section (in accordance with Sections 82A, 127 or 250D of the Corporations Act 2001 (Cth))

Signature of individual or person authorised by corporate resolution to represent corporation

The common seal was affixed hereto in the presence of:

\_\_\_\_\_

\_\_\_\_\_

Print Name:

Director

\_\_\_\_\_

Director/Company Secretary

Dated this \_\_\_\_\_ day of \_\_\_\_\_

**CERTIFICATE OF WITNESS**

Please Note: This certificate is to be completed only where the person giving the proxy is blind or incapable of writing. The signature of the creditor is not to be attested by the person nominated as proxy. I, \_\_\_\_\_ of \_\_\_\_\_ certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him before he attached his signature or mark to the instrument.

Signature of witness: \_\_\_\_\_

APPOINTMENT OF PROXY	Form 532 Regulation 5.6.29 Corporations Act 2001 (Cth)
Surfstitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 ("the Company")	

A. Insert Full Name and Contact Details (please print)

Given Name

Surname

Company Name

Telephone Number

Address

C. Appointment of a Proxy (please complete)

I/We, a creditor of the Company appoint:

\_\_\_\_\_ of \_\_\_\_\_

as my/our proxy, or in his/her absence \_\_\_\_\_, to vote at the meeting of creditors to be held on 5 September 2017 at Surfstitch Head Office, 225 Burleigh Connection Road, Burleigh Heads QLD 4220 at 2.00pm or at any adjournment of that meeting.

C. Voting by Your Proxy

Option 1: If appointed as a general proxy, as he/she determines on my/our behalf.

AND/OR

Option 2: If appointed as a special proxy for some or all resolutions, specifically in the manner set out below (please tick) .

Resolution (please specify the particular resolution)	For	Against	Abstain
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D. Signature Section (in accordance with Sections 82A, 127 or 250D of the Corporations Act 2001 (Cth))

Signature of individual or person authorised by corporate resolution to represent corporation

The common seal was affixed hereto in the presence of:



Print Name:

Director

Director/Company Secretary

Dated this \_\_\_\_\_ day of \_\_\_\_\_

**CERTIFICATE OF WITNESS**

Please Note: This certificate is to be completed only where the person giving the proxy is blind or incapable of writing. The signature of the creditor is not to be attested by the person nominated as proxy. I, \_\_\_\_\_ of \_\_\_\_\_ certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him before he attached his signature or mark to the instrument.

Signature of witness: \_\_\_\_\_

**SurfStitch Group Limited ACN 602 288 004 & Surfstitch Holdings Pty Limited ACN 601 114 603  
(Both Administrators Appointed) (collectively “the Companies”)**

**DECLARATION OF INDEPENDENCE, RELEVANT RELATIONSHIPS, AND INDEMNITIES**

This document requires us as the Practitioners appointed to the Companies to make declarations as to:

- A. Our independence generally;
- B. Relationships, including
  - i. The circumstances of the appointment;
  - ii. Any relationships with the Companies and others within the previous 24 months;
  - iii. Any prior professional services for the Companies within the previous 24 months;
  - iv. That there are no other relationships to declare; and
- C. Any indemnities given, or up-front payments made, to us as the Practitioners.

This declaration is made in respect of us, John Richard Park, Quentin James Olde and Joseph Ronald Hansell, our fellow Senior Managing Directors and FTI Consulting (Australia) Pty Ltd (“**FTI Consulting**” or “**Firm**”) and associated entities.

**A. INDEPENDENCE**

We, John Richard Park, Quentin James Olde and Joseph Ronald Hansell of FTI Consulting have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Joint & Several Administrators of the Companies in accordance with the law and applicable professional standards. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that would prevent us from accepting this appointment.

**B. DECLARATION OF RELATIONSHIPS**

**i. Circumstances of appointment**

On 2 June 2017, FTI Consulting was approached by a Non-Executive Director of SurfStitch Group Limited to provide assistance to the Companies with respect to the financial position of SurfStitch Group Limited and its subsidiaries (collectively “**Group**”), the options available and the process and consequences of a formal insolvency appointment.

In this role, FTI Consulting provided reports addressing the:

- (a) financial situation of the Group;
- (b) current and future solvency of the Group;
- (c) process and consequences of a formal insolvency appointment; and
- (d) alternative courses of action available to the Group.

The engagement occurred over a period of 2 months and we were appointed voluntary administrators two days after the issuance of our final report. We received remuneration in the amount of \$100,000 (excl. GST) in total for the services provided to the Companies. During the course of this engagement, we held 13 meetings in total, 7 physical meetings and 6 by way of teleconference, with the Companies and/or their advisors. A list of these meetings, including the dates, attendees and agendas is attached at **Appendix 1**.

In our opinion, the engagement does not affect our independence for the following reasons:

- (a) The Courts and relevant professional bodies recognise the need for practitioners to provide advice on the insolvency process and the options available and do not consider that such advice results in a conflict or is an impediment to accepting the appointment;
- (b) The work undertaken during the engagement has assisted us in developing an understanding of the Companies and its activities;
- (c) Much of the investigatory work done during the engagement is work that would have been done by us in order to be able to report to creditors under s439A of the Corporations Act. As such, this information will be made available to creditors when we report to them in due course;
- (d) The nature of the advice provided to the Companies is such that it would not be subject to review and challenge during the course of our appointment;
- (e) No advice has been given to the directors in their capacity as directors of the Companies, or in relation to their personal circumstances; and
- (f) The pre-appointment advice will not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the appointment as Joint & Several Administrators of the Companies in an objective and impartial manner.

We have provided no other information or advice to the Companies, the Group, directors and their advisors prior to our appointment beyond that outlined in this DIRRI.

**ii. Relevant Relationships (excluding Professional Services to the Insolvent)**

We, or a fellow Senior Managing Director, and FTI Consulting have or have had over the previous 24 months a relationship with the following parties:

**Westpac Bank Corporation – Secured Creditor (“WBC”)**

FTI has had relationships with WBC due to the nature of FTI Consulting’s business. This includes business advisory, consulting services and the appointment of FTI Consulting’s registered liquidators to companies as a formal insolvency appointment.

In our opinion, this relationship does not result in a conflict of interest or duty as FTI Consulting has not undertaken any work for WBC in respect of the Companies or Group.

**iii. Prior Professional Services to the Insolvent**

We have not provided professional services to the Companies or the Group in the 24 months prior to the acceptance of this appointment beyond that outlined above in this declaration.

**iv. No other relevant relationships to disclose**

There are no other known relevant relationships, including personal, business or professional relationships from the preceding 24 months with the Companies, an associate of the Companies, a former insolvency practitioner appointed to the Companies, or any person or entity that has security over the whole, or substantially the whole of the Companies property beyond those relationships that are outlined above in this declaration.

**C. INDEMNITIES AND UP-FRONT PAYMENTS**

We have not been indemnified in relation to this administration, other than any indemnities that we may be entitled to under statute and we have not received any up-front payments in respect of our remuneration or disbursements as Voluntary Administrators.

#### D. MULTIPLE COMPANY APPOINTMENTS

It is acknowledged that we have been appointed over two related companies within the Group, being the SurfStitch Group Limited ACN 602 288 004 and Surfstitch Holdings Pty Limited ACN 601 114 603 and that we have obligations to each company individually (as defined in Section 435A of the Corporations Act 2001) and not to the Group as a whole. We believe that this relationship does not result in a conflict of interest or duty because:

- SurfStitch Group Limited and SurfStich Holdings Pty Limited are the ultimate holding and holding company, respectively of the operating subsidiaries. The nature of the business operations mean that the administrations can be conducted more efficiently by one practitioner; and
- At the time of our appointment, we are not aware of any conflicts of interest between the two companies. If a conflict does arise, we will keep creditors informed and take appropriate action to resolve the conflict.

Date: 24 August 2017



John Richard Park



Quentin James Olde



Joseph Ronald Hansell

#### NOTE:

1. If circumstances change, or new information is identified, we are required under the Corporations Act 2001 and the ARITA Code of Professional Practice to update this Declaration and provide a copy to creditors with our next communication as well as table a copy of any replacement declaration at the next meeting of the insolvent's creditors.
2. Any relationships, indemnities or up-front payments disclosed in the DIRRI must not be such that the Practitioner is no longer independent. The purpose of components B and C of the DIRRI is to disclose relationships that, while they do not result in the Practitioner having a conflict of interest or duty, ensure that creditors are aware of those relationships and understand why the Practitioner nevertheless remains independent.

## Appendix 1 FTI Consulting Meetings and Teleconferences

### Key of Attendees

Attendees	Position	Company
John Park	Senior Managing Director	FTI Consulting
Quentin Olde	Senior Managing Director	FTI Consulting
Joseph Hansell	Managing Director	FTI Consulting
Simon Skelton	Senior Director	FTI Consulting
Stuart Carson	Senior Director	FTI Consulting
Samuel Scott Weiss	Director, Chairman	SurfStitch Group Limited
Michael Sonand	Director, CEO	SurfStitch Group Limited / SurfStitch Holdings Pty Limited
Harry Hodge	Director	SurfStitch Group Limited
Abigail Cheadle	Director	SurfStitch Group Limited
Stephanie Belton	Company Secretary	SurfStitch Group Limited
Nigel Phillips	CFO	SurfStitch Group Limited
Tim Kleinberg	Partner	King and Wood Mallesons
Kirk Warwick	Senior Associate	King and Wood Mallesons

### Details of Meetings and Teleconferences

Date	Attendance	FTI Consulting Attendees	External Attendees	Agenda
19-Jun-17	Meeting (QLD)	John Park Joseph Hansell Simon Skelton	Mike Sonand Nigel Phillips	General background briefing
19-Jun-17	Teleconference	John Park Quentin Olde Joseph Hansell Simon Skelton	Tim Klineberg	General background briefing

Date	Attendance	FTI Consulting Attendees	External Attendees	Agenda
23-Jun-17	Teleconference	John Park Joseph Hansell Simon Skelton	Stephanie Belton Mike Sonand Tim Klineberg	Discussions concerning options available to the Companies and preliminary assessment of solvency
29-Jun-17	Teleconference	Quentin Olde Joseph Hansell Simon Skelton	Tim Klineberg	Discussions concerning options available to the Companies
11-Jul-17	Meeting (NSW)	John Park Joseph Hansell Simon Skelton	Mike Sonand	Receive update on trading performance and general affairs of the Group
24-Jul-17	Meeting (NSW)	John Park Quentin Olde Joseph Hansell Simon Skelton	Stephanie Belton Mike Sonand Samuel Weiss Kirk Warwick	Discussions concerning options available to the Companies and the process and consequences of a formal insolvency appointment
25-Jul-17	Meeting (NSW)	Quentin Olde John Park (by telephone)	Abigail Cheadle Stephanie Belton Harry Hodge Mike Sonand Samuel Weiss	Discussions concerning options available to the Companies
15-Aug-17	Meeting (QLD)	John Park Joseph Hansell	Abigail Cheadle Stephanie Belton Harry Hodge Mike Sonand Samuel Weiss	Discussions concerning forecast, Companies and Group cash flows and general position of the Group.
17-Aug-17	Teleconference	Joseph Hansell Simon Skelton	Mike Sonand	Discussion concerning forecast cash flows of the Group.
20-Aug-17	Teleconference	John Park Joseph Hansell	Mike Sonand Stephanie Belton Samuel Weiss	Discussion concerning forecast cash flows of the Group, alternative options available to the Companies and the process and consequences of a formal insolvency appointment
22-Aug-17	Teleconference	John Park Joseph Hansell Simon Skelton	Abigail Cheadle Stephanie Belton Harry Hodge Mike Sonand Samuel Weiss Tim Klineberg	Discussions concerning assessment of future solvency, options available to the Companies and the process and the consequences of a formal insolvency appointment



Date	Attendance	FTI Consulting Attendees	External Attendees	Agenda
22-Aug-17	Meeting (NSW)	Quentin Olde Simon Skelton Stuart Carson	Stephanie Belton Mike Sonand Samuel Weiss	Discussions concerning options available to the Companies and the process and the consequences of a formal insolvency appointment
23-Aug-17	Meeting (NSW)	Joseph Hansell Simon Skelton Stuart Carson	Stephanie Belton Mike Sonand	Discussions concerning options available to the Companies and the process and the consequences of a formal insolvency appointment

## INITIAL ADVICE TO CREDITORS – BASIS OF REMUNERATION

### REMUNERATION METHODS

There are four basic methods that can be used to calculate the remuneration charged by an insolvency practitioner. They are:

- *Time based / hourly rates*

This is the most common method. The total fee charged is based on the hourly rate charged for each person who carried out the work multiplied by the number of hours spent by each person on each of the tasks performed.

- *Fixed fee*

The total fee charged is normally quoted at the commencement of the administration and is the total cost for the administration. Sometimes a practitioner will finalise an administration for a fixed fee.

- *Percentage*

The total fee charged is based on a percentage of a particular variable, such as the gross proceeds of assets realisations.

### METHOD PROPOSED

We propose that our remuneration will be calculated on a time basis. We believe this method is appropriate as it ensures that only the actual work performed will be charged for. There are also various tasks required to be completed which do not involve the realisation of assets, such as reporting to ASIC, undertaking investigations, corresponding with creditors and answering their queries, and completing other statutory tasks required by law.

### ESTIMATE OF REMUNERATION FOR THE ADMINISTRATION

We estimate our remuneration for undertaking the administration will be approximately \$500,000 to \$600,000 (exclusive of GST), subject to the following variables which may have a significant effect on this estimate and that we are unable to determine until the administration has commenced:

- The full scope and extent of necessary work (from experience, unforeseen matters typically arise and may require us to perform additional work beyond that currently anticipated).
- The extent of business operations continuing after appointment.
- The actual length of the administration itself.
- The extent of work to assess any deed of company arrangement that may be proposed.

## EXPLANATION OF HOURLY RATES

The rates for our remuneration calculation are attached together with a general guide showing the qualifications and experience of staff that will be engaged in the administration and the role they take in the administration. The hourly rates charged encompass the total cost of providing professional services and should not be compared to an hourly wage.

## DISBURSEMENTS

Disbursements are divided into three types:

- Externally provided professional services - these are recovered at cost. An example of an externally provided professional service disbursement is legal fees.
- Externally provided non-professional costs such as travel, accommodation and search fees - these are recovered at cost.
- Internal disbursements such as photocopying, printing and postage. These disbursements, if charged to the administration, would generally be charged at cost; though some expenses such as telephone calls, photocopying and printing may be charged at a rate which recoups both variable and fixed costs.

We will seek creditor approval for our disbursements. Details of the basis of recovering internal disbursements in this administration are provided below. Full details of any actual costs incurred will be provided with future reporting.

Nature of Disbursement	Rate (excluding GST)
Advertising and search fees	At cost
Couriers and deliveries	At cost
Postage	At cost
Facsimile, Printing and photocopying	\$0.09 per unit of time charged
Telephone calls	\$0.10 per unit of time charged
Staff travel - mileage	Cents per km method (per ATO rates)
Other staff travel/out of pockets	At cost
Storage of records (including boxes)	At cost

<b>FTI Consulting Standard Rates effective 1 March 2017 (excluding GST)</b>		
<b>Typical classification</b>	<b>All Offices \$/hour</b>	<b>General guide to classifications</b>
Senior Managing Director	625	Registered/Official Liquidator and/or Trustee, with specialist skills and extensive experience in all forms of insolvency administrations. Alternatively, has proven leadership experience in business or industry, bringing specialist expertise and knowledge to the administration.
Managing Director	580	Specialist skills brought to the administration. Extensive experience in managing large, complex engagements at a very senior level over many years. Can deputise for the appointee. May also be a Registered/Official Liquidator and/or Trustee. Alternatively, has extensive leadership/senior management experience in business or industry.
Senior Director	570	Extensive experience in managing large, complex engagements at a very senior level over many years. Can deputise for the appointee, where required. May also be a Registered/Official Liquidator and/or Trustee or have experience sufficient to support an application to become registered. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Director	510	Significant experience across all types of administrations. Strong technical and commercial skills. Has primary conduct of small to large administrations, controlling a team of professionals. Answerable to the appointee, but otherwise responsible for all aspects of the administration. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Senior Consultant 2	440	Typically an ARITA professional member. Well developed technical and commercial skills. Has experience in complex matters and has conduct of small to medium administrations, supervising a small team of professionals. Assists planning and control of medium to larger administrations.
Senior Consultant 1	380	Assists with the planning and control of small to medium administrations. May have the conduct of minor administrations. Can supervise staff. Has experience performing more difficult tasks on larger administrations.
Consultant 2	360	Typically ICAA qualified (or similar). Required to control the tasks on small administrations and is responsible for assisting with tasks on medium to large administrations.
Consultant 1	315	Qualified accountant with several years experience. Required to assist with day-to-day tasks under the supervision of senior staff.
Associate 2	280	Typically a qualified accountant. Required to assist with day-to-day tasks under the supervision of senior staff.
Associate 1	260	Typically a university undergraduate or graduate. Required to assist with day-to-day tasks under the supervision of senior staff.
Junior Associate	185	Undergraduate in the latter stage of their university degree.
Administration 2	185	Well developed administrative skills with significant experience supporting professional staff, including superior knowledge of software packages, personal assistance work and/or office management. May also have appropriate bookkeeping or similar skills.
Junior Accountant	155	Undergraduate in the early stage of their university degree.
Administration 1	155	Has appropriate skills and experience to support professional staff in an administrative capacity.



**ASIC**

Australian Securities & Investments Commission

## Insolvency information for directors, employees, creditors and shareholders

ASIC has 11 insolvency information sheets to assist you if you're affected by a company's insolvency and have little or no knowledge of what's involved.

These plain language information sheets give directors, employees, creditors and shareholders a basic understanding of the three most common company insolvency procedures—liquidation, voluntary administration and receivership. There is an information sheet on the independence of external administrators and one that explains the process for approving the fees of external administrators. A glossary of commonly used insolvency terms is also provided.

The Insolvency Practitioners Association (IPA), the leading professional organisation in Australia for insolvency practitioners, endorses these publications and encourages its members to make their availability known to affected people.

### List of information sheets

- INFO 41 *Insolvency: a glossary of terms*
- INFO 74 *Voluntary administration: a guide for creditors*
- INFO 75 *Voluntary administration: a guide for employees*
- INFO 45 *Liquidation: a guide for creditors*
- INFO 46 *Liquidation: a guide for employees*
- INFO 54 *Receivership: a guide for creditors*
- INFO 55 *Receivership: a guide for employees*
- INFO 43 *Insolvency: a guide for shareholders*
- INFO 42 *Insolvency: a guide for directors*
- INFO 84 *Independence of external administrators: a guide for creditors*
- INFO 85 *Approving fees: a guide for creditors*

### Getting copies of the information sheets

To get copies of the information sheets, visit ASIC's website at [www.asic.gov.au/insolvencyinfosheets](http://www.asic.gov.au/insolvencyinfosheets). The information sheets are also available from the IPA website at [www.ipaa.com.au](http://www.ipaa.com.au). The IPA website also contains the IPA's Code of Professional Practice for Insolvency Professionals, which applies to IPA members.

**Important note:** The information sheets contain a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. These documents may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances. You will need a qualified professional adviser to take into account your particular circumstances and to tell you how the law applies to you.