



SurfStitch Group Limited (SGL) & SurfStitch Holdings Pty Limited (SHPL) (Both Administrators Appointed)



Report to Creditors – Pursuant to Section 439A of the Corporations Act (Cth) 2001



16 March 2018

SurfStitch

About this report: a guide for creditors

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Purpose of this Report

- The Administrators are required to prepare this report, pursuant to Section 439A of the Corporations Act (Cth) 2001 (**the Act**). We are required to provide creditors with information about the Companies' business, property, affairs and financial circumstances and provide information known to the Administrators that will enable creditors to make an informed decision about the future of the Companies.
- This report, and its attachments, contain details regarding the:
 - Second Meetings of Creditors (**Second Meeting**), which will be held on **Wednesday, 4 April 2018 at The Ionic Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney NSW 2000 at 1:00pm.**
 - Administrators' opinion and recommendation about the Companies' future.
- At the Second Meeting, creditors will be asked to decide whether the :
 - Companies should execute a DOCA; or
 - administrations of the Companies should end; or
 - Companies should be wound up.
- Alternatively, creditors can also vote to adjourn the meeting for a period not exceeding 45 business days.

Information Included

- This report contains the information required by law and other information that is materially relevant to creditors to enable them to make an informed decision about the Companies' future.
- The *Table of Contents* on the following page lists the sections of this report. A glossary and certain other information, including details about the proposals for Deeds of Company Arrangements and our claim for remuneration are included in the appendices.

Details and Forms for the Forthcoming Creditors' Meeting

- Details of the Second Meeting are included in the covering Circular, which includes, the Notices of Meetings, Proof of Debt forms and Appointment of Proxy forms. In order to attend the meeting you must ensure you have lodged a proof of debt including particulars of your claim (if you have not already done so) and proxy (if required) by no later than **Thursday 29 March 2018 at 2:00pm.**

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Statement by Administrators

- This report has been prepared for the creditors of Companies to assist them in evaluating their position as creditors and in deciding on the Companies' futures. None of the Administrators, FTI Consulting and its staff shall assume any responsibility to any third party to which this report is disclosed or otherwise made available.
- This report is based on information obtained from the Companies' records, the Directors and Management of the Companies and from our own enquiries. While we have no reason to doubt the veracity of information contained in this report, unless otherwise stated we have proceeded on the basis that the information provided and representations made to us are materially accurate, complete and reliable. We have not carried out anything in the nature of an audit, review or compilation.
- The Report is based upon our investigations to date. Any additional material issues that are identified subsequent to the issue of this report may be subject to further written report(s) and/or tabled at the Second Meeting.
- The statements and opinions given in this report are given in good faith and on the belief that such statements and opinions are not false or misleading. We reserve the right to alter any conclusions reached based on any changed or additional information which may be provided between the date of this report and the date of the Second Meeting (except where otherwise stated).
- This report may contain prospective financial information, including estimated outcomes for creditors, trading multiples and other forward looking information. As events and circumstances frequently do not occur as expected, there may be material differences between estimated and actual results. We take no responsibility for the achievement of any projected outcomes or events.
- Creditors should seek their own advice if they are unsure how any matter in this report affects them.

Questions and Help

- Please contact Paris Parasadi on +61 7 3225 4927, if you are unsure about any matter raised in this report and the impact that any decision about the Companies' future may have on you.



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1. Executive Summary



1. Executive Summary

It is in creditors' interests that:

■ **SGL and SHPL execute a Deed of Company Arrangement as per the terms of the EziBuy Proposal.**

In considering their options, Creditors must consider the EziBuy Proposal and Cheadle Group Proposal as detailed in this report in their entirety, including the overview of the proposed share issues detailed on the following page.

Item	Option 1: Execute the EziBuy DOCA	Option 2: Execute the Cheadle Group DOCA	Option 3: Administration end	Option 4: Winding Up
Recommended option	✓	✗	✗	✗
Reason	Best overall return to creditors	Overall return to creditors is not as high as under the EziBuy Proposal	SGL and SHPL are insolvent unless creditor claims are compromised via a DOCA	Overall return to creditors is not as high as under the EziBuy Proposal
Proposed Transaction	Sale of SSAU and certain IP to EziBuy	Relist SGL for quotation on the ASX	N/A	N/A
Employee and Ordinary Creditors of SGL and SHPL	Paid in full between 6 – 8 weeks	Paid in full between 6 – 8 weeks	N/A	<ol style="list-style-type: none"> SHPL Ordinary Creditors, estimated return of 3.6 to 6.5 cents in the dollar SGL and SHPL Employee creditors paid in full SGL Ordinary creditors (excluding Group Member Claimants) paid in full
Group Member Claimants	<ol style="list-style-type: none"> Highest forecast return Cash dividend in an estimated aggregate amount of \$3.4m to \$4.3m Issued with a convertible note which will convert to shares in EziBuy with an estimated aggregate value of \$6.0m-\$20.0m 	<ol style="list-style-type: none"> Lowest forecast return No cash dividend Shares in SGL with an estimated aggregate value of \$3.8m-\$6.1m 	N/A	<ol style="list-style-type: none"> Mid range return Cash dividend with an estimated aggregate amount of \$4.5m to \$7.5m No share issue
Current SGL shareholders	Issued with a convertible note which will convert to shares in EziBuy worth an estimated aggregate amount of \$1.5m-\$5.0m	Retain 47.85% diluted shareholding in SGL worth an estimated aggregate amount of \$6.2m-\$9.7m	N/A	No return
DOCA Execution Risk	Low	Low to medium	N/A	N/A

1. Executive Summary

Estimated Return and Timing

Item	Detail	Analysis																										
Estimated Return	<ul style="list-style-type: none"> The estimated return (cents in the dollar) and timing of the return is as follows: 	Section 10																										
	SHPL Estimated Return cents in the dollar																											
		<table border="1"> <thead> <tr> <th rowspan="2">Class</th> <th rowspan="2">Liquidation</th> <th rowspan="2">EziBuy Proposal</th> <th colspan="2">Cheadle Group</th> </tr> <tr> <th>Proposal</th> <th>Estimated Timing</th> </tr> </thead> <tbody> <tr> <td>Priority</td> <td>100.0</td> <td>100.0</td> <td>100.0</td> <td>6 - 8 weeks</td> </tr> <tr> <td>Ordinary</td> <td>3.6 - 6.5</td> <td>100.0</td> <td>100.0</td> <td>6 - 8 weeks</td> </tr> </tbody> </table>	Class	Liquidation	EziBuy Proposal	Cheadle Group		Proposal	Estimated Timing	Priority	100.0	100.0	100.0	6 - 8 weeks	Ordinary	3.6 - 6.5	100.0	100.0	6 - 8 weeks									
	Class	Liquidation				EziBuy Proposal	Cheadle Group																					
			Proposal	Estimated Timing																								
	Priority	100.0	100.0	100.0	6 - 8 weeks																							
	Ordinary	3.6 - 6.5	100.0	100.0	6 - 8 weeks																							
	SGL Estimated Return cents in the dollar																											
		<table border="1"> <thead> <tr> <th rowspan="2">Class</th> <th rowspan="2">Notes</th> <th rowspan="2">Liquidation</th> <th rowspan="2">EziBuy Proposal</th> <th colspan="2">Cheadle Group</th> </tr> <tr> <th>Proposal</th> <th>Estimated Timing</th> </tr> </thead> <tbody> <tr> <td>Priority</td> <td></td> <td>100.0</td> <td>100.0</td> <td>100.0</td> <td>6 - 8 weeks</td> </tr> <tr> <td>Ordinary</td> <td></td> <td>100.0</td> <td>100.0</td> <td>100.0</td> <td>6 - 8 weeks</td> </tr> <tr> <td>Group Member Claimants</td> <td>1</td> <td>5.2 - 8.8</td> <td>11.1 - 28.5</td> <td>4.6 - 7.2</td> <td>Between 6 months and 3 years</td> </tr> </tbody> </table>	Class	Notes	Liquidation	EziBuy Proposal	Cheadle Group		Proposal	Estimated Timing	Priority		100.0	100.0	100.0	6 - 8 weeks	Ordinary		100.0	100.0	100.0	6 - 8 weeks	Group Member Claimants	1	5.2 - 8.8	11.1 - 28.5	4.6 - 7.2	Between 6 months and 3 years
	Class	Notes					Liquidation	EziBuy Proposal	Cheadle Group																			
Proposal			Estimated Timing																									
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Ordinary		100.0	100.0	100.0	6 - 8 weeks																							
Group Member Claimants	1	5.2 - 8.8	11.1 - 28.5	4.6 - 7.2	Between 6 months and 3 years																							
<p>Note 1: The estimated return to Group Member Claimants is a combination of cash and shares for the EziBuy Proposal and shares in the Cheadle Group Proposal. Timing under the Liquidation and DOCA proposals varies. Group Member Claimants should refer to Section 10 for further details.</p>																												
<ul style="list-style-type: none"> Creditors and Group Member Claimants should refer to Section 10 and Appendix 15 for further details of the estimated returns and timing under the different scenarios 																												

1. Executive Summary

Overview of share issue to Group Member Claimants and Current Shareholders

Item	Note	EziBuy Proposal	Cheadle Group Proposal
Shares details			
Company issuing shares		EziBuy parent company that owns both EziBuy and SSAU	SGL
Share to be issued to Group Member Claimants		Between 4% to 8% of the issued share capital on a fully diluted basis Estimated value: \$6.0m-\$20.0m	30% of the issued share capital on a fully diluted basis Estimated value: \$3.8m-\$6.1m
Shares to be issued to/retained by Current Shareholders of SGL		Between 1% to 2% of the issued share capital on a fully diluted basis Estimated value: \$1.5m-\$5.0m	47.85% of the Issued share capital on a fully diluted basis Estimated value: \$6.2m-\$9.7m
Timetable for issuing shares	1	Shares will be issued on the earlier of an IPO, trade sale, other liquidity event or 3 years from date of the DOCA. EziBuy advises that it is seeking to attain a “liquidity event” and issue the shares “as soon as is reasonably practicable, subject to maximising returns to all shareholders and Convertible Note holders”.	Shares are proposed to be issued by SGL without shareholder approval, within 60 days after the effectuation of the DOCA. The Administrators consider a share issue without shareholder approval will require SGL to be delisted or for the ASX to waive the requirement for shareholder approval. Without discussing the matter with the ASX, the Administrators are unable to say whether the ASX would consider granting this waiver.
Remedy if shares not issued		If the EziBuy parent company enters external administration, the Deed Administrators will be eligible to lodge a claim in the amount of \$15m, being the face value of the convertible note. The dividend payable on that proof cannot be determined presently. If this occurs the dividend will be payable to SGL and distributed 80% to Group Member Claimants (on proof) and 20% to Shareholder of SGL. The Deed Administrators will have a contractual right to enforce the issue of the shares after the earlier of a liquidity event or 3 years.	The DOCA Proposal provides no remedy if the shares are not issued. The Group Member Claimants may seek independent advice on their rights in this regard.

Note 1: Timetable for issuing shares

Shares cannot be issued or transferred to Subordinate Claimants before the final determination of their Claims – estimated to take between 6-12 months

1. Executive Summary

Overview of share issue to Group Member Claimants and Current Shareholders (continued)

Item	Note	EziBuy Proposal	Cheadle Group Proposal
ASX Listing/Reinstatement to Quotation		No information provided on intentions to list beyond the statement set out above in the section entitled “Timetable for issuing shares”.	<p>If SGL leaves its current voluntary suspension, it will need to comply with ASX listing rules. SGL may have compliance risks in relation to:</p> <ol style="list-style-type: none"> (1) lodging audited accounts for FY17 and reviewed accounts for the 6 months to 31-Dec-17; and (2) showing that it maintains sufficient levels of operation and adequate financial conditions to meet ASX requirements (but these levels are not specified in the listing rules). <p>The ASX has power to delist a company for non-compliance with the Listing Rules.</p>
Returns prior to listing/reinstatement to quotation		<p>If there is a trade sale and the EziBuy business is sold before listing, Group Member Claimants will receive:</p> <ol style="list-style-type: none"> 1. Share sale: pro-rata payment of the sale price; and 2. Asset sale: pro-rata cash dividend. <p>Otherwise, no formal mechanism to dispose of shares prior to listing.</p> <p>Prior to issue of shares, claims are in respect of a Convertible Note only.</p>	<p>If SGL is not reinstated to quotation, an offer will be made to Group Claimant Members to redeem (or buy back) their shares at the then prevailing market price.</p> <p>The Administrators consider there are risks associated with such an offer as it constitutes a “selective buy-back” and cannot proceed without shareholders first passing a special resolution (requiring a 75% majority) in which no vote is cast by the Group Member Claimants holding shares in SGL.</p> <p>There is a further risk that SGL will not have the financial capacity to pay for the shares that it may be required to buy back.</p>



1. Executive Summary

Overview of share issue to Group Member Claimants and Current Shareholders (continued)

Item	Note	EziBuy Proposal	Cheadle Group Proposal
Information material to future trading prospects			
Ecommerce experience		Alceon, through the EziBuy turnaround process, have gained experience in the turnaround of an ecommerce business.	The overall team has strong ecommerce experience.
Ability to achieve scale and profitability		Higher scale of a combined business (Ezibuy and SurfStitch) may allow for cost synergies and revenue acceleration. Potential cross sell opportunities. Further acquisitions are also considered for the merged group.	Future business scale will depend on the SSAU Management's ability to drive growth strategies, guided by an experienced Board and/or the ability to raise capital to explore further acquisitions.
Access to funding		Ezibuy is backed by a Private Equity sponsor, Alceon, with possible access to funding that SSAU may require to turnaround performance.	Approximately \$2.6m to \$2.9m available for working capital post Administration. Letter of support from Greenwich Capital up to \$4m.
SSAU Management support	2	Alceon have met with SSAU Management. SSAU Management have not provided any specific feedback from the meeting.	Justin Hillberg (General Manager) is amongst the DOCA proponents for the Cheadle Group Proposal.

Note 2: SSAU Management support

SSAU Management have confirmed they would support any proposal which supports SSAU's critical priorities for the business, refer to **Appendix 14**.

1. Executive Summary

Key findings about business, property and affairs of SGL and SHPL

Key areas	Finding	Analysis
Explanations for the Companies' difficulties	<ul style="list-style-type: none"> ■ Commencement of legal actions by the TCI Group and 2 Class Actions resulting in working capital being allocated towards legal costs and management time toward litigation and crisis management as opposed to operations. ■ Potentially large contingent claims (Class Actions) crystallising with no capacity to pay in full. ■ A projected strain on the SGL Group's working capital from September 2017 in the lead up to the Christmas period. ■ Funding loss making operational subsidiaries, effected by a deterioration in retail conditions in the Northern Hemisphere. 	Section 4
Offences by Directors	<p>One or more former directors of SGL may have contravened the Act in the context of and at the time of entering the TCI Group Agreements with respect to:</p> <ul style="list-style-type: none"> ■ The taking of reasonable steps to cause the company to keep adequate written financial records; ■ The continuous disclosure to the ASX of price sensitive information; ■ Market misconduct and, potentially, insider trading; and ■ Breach of statutory duty. <p>Otherwise, we have not identified any potential contraventions of the Act by current and former directors of SGL and SHPL.</p>	Section 6
Estimated date of insolvency	SGL and SHPL were each solvent at all times prior to the Appointment Date.	Section 6
Part 5.7B Recovery Actions	No actions have been identified – due, in part, to the solvency of SGL and SHPL at all times prior to the Appointment Date.	Section 6
Liability for insolvent trading	No liability arises due to the solvency of SGL and SHPL at all times prior to the Appointment Date.	Section 6

2. Appointment



2. Appointment

Appointment of Administrators

- On 24 August 2017, John Richard Park, Joseph Ronald Hansell and Quentin James Olde were appointed Joint and Several Voluntary Administrators of SurfStitch Group Limited (SGL) and SurfStitch Holdings Pty Limited (SHPL). The appointments were in accordance with resolutions passed by the Board of Directors of SGL and the sole Director of SHPL pursuant to Section 436A of the Act.
- The objective of a voluntary administration is to provide for the business, property and affairs of a company to be administered in a way that:
 - a. maximises the chances of a company, or as much as possible of its business, continuing in existence; or
 - b. if it is not possible for the company or its business to continue in existence – results in a better return for the company’s creditors and members than would result from an immediate winding up of the company.
- In a voluntary administration, the Administrators take control of a company and its affairs. The directors’ and officers’ powers to make decisions and perform management functions are suspended.
- The Administrators are also required to investigate the company’s affairs.

Outcome of the First Meeting of Creditors

- The first meetings of creditors for the Companies were held on 5 September 2017. The purpose of the meetings were to:
 - Provide an update on the Administrations to date;
 - Consider forming a committee of creditors; and
 - Decide whether or not to appoint alternative practitioners to be the Administrators of the Companies.
- There were no nominations to replace the Administrators and as such the Administrators remained in office.
- The Companies’ creditors did not resolve to form a committee.

Administrators’ Prior Involvement and Independence

- In accordance with Section 436DA of the Act, the Administrators provided a Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) with their Circular to Creditors dated 25 August 2017. The DIRRI included the circumstances that led to the Administrators’ appointments. A copy of the DIRRI is attached as **Appendix 2**.
- There has been no change to our initial assessment of the Administrators’ independence, or to the information provided in the DIRRI.

Second Meeting of Creditors

- Pursuant to 439A of the Act, the Second Meeting will be held on **Wednesday, 4 April 2018 , at The Ionic Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney NSW 2000 at 1:00pm**. At the Second Meeting, creditors will determine the Companies’ futures by voting on the following options:
 - The Companies execute a DOCA; or
 - The Administration of the Companies should end; or
 - The Companies should be wound up.
- All details, forms and instructions relating to the upcoming Second Meeting have been included with the covering letter and in the appendices to this report.

3. Statutory Matters



3. Statutory Matters

Extension of Convening Period

- The Administrators made an application with the Federal Court of Australia to extend the convening period in accordance with Section 439A of the Act. The application was filed to allow the Administrators sufficient time to:
 - Conduct sale processes of non-core businesses;
 - Investigate restructuring and recapitalisation options via an expressions of interest process;
 - Negotiate and settle various litigation the Companies were parties to;
 - Make an application pursuant to 600H of the Act allowing eligible Group Member Claimants to vote at the Second Meeting;
 - Investigate the examinable affairs of the Companies; and
 - Provide a detailed Report to Creditors.
- The Court initially extended the convening period to 21 December 2017. The convening period was further extended by the Supreme Court of New South Wales to 31 March 2018.

Court Order on Group Member Claimants' Entitlement to Vote

- On 11 December 2017, the Administrators filed an application in the Supreme Court of New South Wales pursuant to Section 600H of the Act, seeking orders for Group Member Claimants and any person with a subordinate claim to vote at SGL's Second Meeting. The application was heard on 19 February 2018.
- On 22 February 2018, Justice Brereton made orders allowing Group Member Claimants and any person with a subordinate claim (as defined in Section 563A(2) of the Act) to vote at meetings in the external administration of SGL, including the SGL Second Meeting if they:
 - are able to establish they have a claim; and
 - lodge particulars or proofs of that claim by the time specified in the notice convening the SGL Second Meeting.
- Further details are provided in Section 8.

Court Order on Administrators' Relief

- On 20 October 2017, Justice Markovic of the Federal Court of Australia granted an Order providing the Administrators' relief as to personal liability from an undertaking provided to a third party for the repayment of money borrowed by SurfStitch Pty Limited (**SurfStitch Australia** or **SSAU**).
- Further details are contained within the Circular to Creditors dated 26 October 2017.

Deferral of Annual Reporting Requirements and AGM

- Prior to the appointment of Administrators, the SGL Group was in the process of preparing its FY17 Annual Report (due for lodgement on 31 October 2017).
- The Administrators notified ASIC that relief provided under the instrument ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251 will be relied upon. The effect of the relief, is a six month deferral on the SGL Group's financial reporting obligations under Part 2M.3 of the Act. The initial deferral period was to expire on 24 February 2018
- On the Administrators application, ASIC granted the Companies further relief, extending the time to comply with the SGL Group's obligations under Part 2M.3 of the Act for the financial year ended 30 June 2017, and, in respect of SGL, for the half-year ended 31 December 2017 until the earlier of:
 - 24 February 2020;
 - the date on which a disclosure document is lodged with ASIC in relation to any offer for issue or sale of securities that needs disclosure to investors under Chapter 6D of the Act; or
 - the date that the Company ceases to be under external administration.

3. Statutory Matters

Administrators' Announcements on the ASX

- SGL is an ASX listed entity, the shares in SGL (ASX: SRF) have been suspended since May 2017.
- The Administrators made the following announcements. A copy of these announcements can be viewed directly from the ASX website, www.asx.com.au

Date	Headline
24 August 2017	Administrators' Announcement
11 September 2017	Market Update – Sale of STAB Magazine
19 September 2017	Market Update – Sale of Magicseaweed
19 September 2017	Market Update – Extension of the Convening Period
12 October 2017	Market Update – Sale of Surfdome Shop Limited
23 October 2017	Market update – Resignation of Company Secretary
24 November 2017	Notice of Extension of Time to Hold Annual General Meeting
24 November 2017	Surfstitch Group and Three Crowns Settlement
18 December 2017	Link Market Services – Change of Brisbane Address
22 December 2017	Role of Chief Executive Officer
22 December 2017	Extension of Convening Period
30 January 2018	Administrators' Update
1 March 2018	Extension to Lodge Full and Half Year Statutory Accounts

4. SGL Group Information

4. SGL Group Information

Incorporation

- SHPL was incorporated on 6 August 2014 and SGL was incorporated on 13 October 2014. SHPL was established as the holding company for the SGL Group and SGL was used as a vehicle for the SGL Group to be listed on the Australian Securities Exchange (ASX).

Registered Office and Principal Place of Business

- The Companies' registered office and principal place of business are as follows:

Companies' Address

Company	Registered Office & Principal Place of Business
SGL & SHPL	225 Burleigh Connection Road, Burleigh Heads QLD 4220

Directors and Officers

- The Directors at the time of our appointment, were:

SGL Directors at time of Appointment

	Position Held	Date Appointed
Samuel Scott Weiss	Director	01-Jul-16
Michael Sonand	Director	15-Jul-16
Harry Hodge	Director	06-Dec-16
Abigail Cheadle	Director	01-Nov-16

SHPL Director at time of Appointment

	Position Held	Date Appointed
Michael Sonand	Director	01-Aug-17

Directors and Officers (continued.)

- The Secretary of the two Companies at the time of our appointment was:

Secretary at time of Appointment

Name	Company	Date Appointed
Stephanie Mary Belton	SGL	01-Nov-16
Stephanie Mary Belton	SHPL	01-Nov-16

- Stephanie Belton resigned as the Secretary of SGL and SHPL on 23 October 2017.
- Details of the former Directors and Secretaries are detailed in **Appendix 3**.

Shareholders

- SGL is an ASX listed entity, the top 10 shareholders at the time of the Administrators' appointment were as follows:

Shareholder Name	Shares Held	% of total ownership
HSBC Custody Nominees	42,689,745	15.30%
Citicorp Nominees Pty Limited	31,641,174	11.34%
Brispot Nominees Pty Ltd	29,895,766	10.71%
Crown Financial Pty Ltd	29,351,450	10.52%
J P Morgan Nominees Australia	12,173,186	4.36%
Justin Paul Towells Stone	11,225,983	4.02%
Bond Street Custodians Limited	6,000,000	2.15%
Online Brands Pty Limited	5,098,611	1.83%
Intrepid Investments Pty Ltd	4,725,788	1.69%
Citicorp Nominees Pty Limited	3,679,253	1.32%

- The share price at 31 December 2015 was \$1.90 and at \$0.068 when the shares were suspended in May 2017.

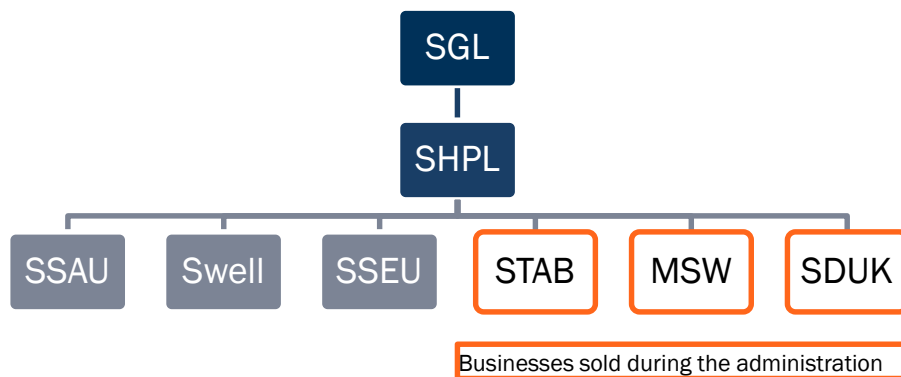
4. SGL Group Information

Group Operations

- The SGL Group listed on the ASX via an initial public offering on 16 December 2014.
- The SGL Group is an e-commerce retailer of action sports and youth apparel, which operated across multiple jurisdictions including Australia, UK and USA.
- The Australian business is operated through subsidiary SurfStitch Pty Limited and its business is conducted from the Gold Coast, Queensland.
- Prior to the ASX listing, the SGL Group acquired, Swell in the USA in September 2014.
- Since listing on the ASX the SGL Group acquired the following businesses:
 - SurfDome operating in the UK in December 2014
 - Magicseaweed operating out of the USA in May 2015
 - STAB Magazine in May 2015
 - Surf Hardware International in December 2015 (sold in December 2016)
 - Garage Entertainment in November 2015 (sold in April 2017)
- The businesses were all wholly owned subsidiaries of SHPL.

Group Structure

- A summary of the group structure as at 24 August 2017 is detailed below.



- Below are comments on the SGL Group structure as at the date of our appointment:
 - SGL is the ASX listed entity and did not operate any of the SGL Group's businesses.
 - SHPL is a wholly owned subsidiary of SGL and is the holding company of the subsidiary trading businesses, which are not in Voluntary Administration.
 - SSAU is the Australian based eCommerce business, operated by SurfStitch Pty Limited.
 - Swell is a North American based eCommerce business, operated by SurfStitch USA (Inc), registered in the USA.
 - SSEU, SurfStitch (Europe) Pty Limited, has not been in operation since June 2015 and is a dormant entity.
 - MSW is a UK based surf forecasting and content network business. It was operated by Magicseaweed Limited and Metcentral Limited. The business and assets of MSW were sold to Surfline Wavetrack Limited on 19 September 2017. Further details at Section 5.
 - STAB Magazine is an online surf publishing and content business. It was operated by Rollingyouth Pty Ltd. The business and assets were sold to Rollingyouth Media Pty Ltd on 11 September 2017. Further details at Section 5.
 - SDUK is UK based eCommerce business, SurfDome. It was operated by SurfDome Shop Limited. The shares of SurfDome Shop Limited were sold to Internet Fusion Limited on 12 October 2017. Further details at Section 5.

Deed of Cross Guarantee

- SGL is the holding entity of a Deed of Cross Guarantee (**DoCG**) pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998.
- The wholly owned subsidiaries listed below are subject to the DoCG entered into on 23 June 2015:

Company	ACN
SurfStitch Holdings Pty Limited	601 114 603
SurfStitch Pty Limited	141 251 443
SurfStitch (Europe) Pty Limited	153 351 458
Rollingyouth Pty Ltd	102 842 384

4. SGL Group Information

Deed of Cross Guarantee (continued)

- If SGL or SHPL is wound up, company creditors can bring claims against other DoCG companies.

Details of Security Interests and Charges

- The following security interests were registered on the Personal Property Securities Register (PPSR) at our appointment:

SGL Summary of Security Interests Registered

Secured Party Group	Collateral Type	Note
Westpac Banking Corporation Limited	ALLPAAP – No Exceptions	1
Data #3 Limited	Other Goods	2
Vegas Enterprises Pty Ltd	Other Goods	2

SHPL Summary of Security Interests Registered

Secured Party Group	Collateral Type	Note
Westpac Banking Corporation Limited	ALLPAAP – No Exceptions	1
UG Manufacturing Co. Pty. Ltd.	Other Goods	2
Rip Curl Pty Ltd	Other Goods	3

Notes

1. Westpac hold security over all assets of SGL, SHPL and other members of the SGL Group. Their securities relate to various bank guarantees, merchant and credit card facilities. In addition to the registrations over the members of the SGL Group, Westpac also holds \$1.254million in blocked accounts as security against any exposure to members of the SGL Group (accounts held in SGL and SSAU). This security exceeds their exposure to the Companies.
2. These registrations were discharged during the administration.

3. Rip Curl Pty Ltd holds security with respect to the supply of stock to SurfStitch Australia. The supply agreement with Rip Curl was executed by SHPL, however, prior to the administration, it was the SGL Group's understanding that the supply was being made to SHPL's subsidiary SurfStitch Australia. Any amounts owed to Rip Curl at the date of our appointment were paid by SurfStitch Australia as it received the benefit of the supplied stock.

Director's Reasons for the Companies' Difficulties

- As per the ASX announcement on 24 August 2017 (included in **Appendix 4**), the Directors attributed the Companies failure to the following factors:
 - Protracted legal action;
 - The initiation of two class action lawsuits; and
 - The commencement of an ASIC investigation.

Administrators' Reasons for the Companies' Difficulties

- Our preliminary view is that, the Companies experienced difficulties due to the following factors:
 - A projected strain on the SGL Group's working capital from September 2017 in the lead up to the Christmas period. The SGL Group was likely to be heavily reliant on an injection of cash from the divestment in subsidiaries' businesses, Magicseaweed and SurfDome, both of which had not completed prior to the appointment of Administrators.
 - Funding loss making operational subsidiaries.
 - A deterioration in retail conditions in the Northern Hemisphere which affected business operations in the UK (SurfDome) and USA (Swell).
 - The transactions entered into with the TCI Group which lead to the commencement of various legal actions and resulted in significant costs being incurred in defending the claims.
 - The commencement of two class actions, with the filing of Statement of Claims in Queensland in May 2017 and in New South Wales in June 2017. These actions caused a uncertainty for the SGL Group's future operations and caused a deterioration of SGL's working capital in responding to the claims.

4. SGL Group Information

Material Events Leading to the Administration

■ Detailed below is a timeline of the material events prior to our appointment:

Date	Event
6 August 2014	SHPL is incorporated
13 October 2014	SGL is incorporated
16 December 2014	SGL is listed for official quotation on the ASX
21 December 2015	SGL (and certain operating entities) and TCI Group enter into two Heads of Agreements for; 1. proposed IP Licences to be entered into by 30 March 2016; and 2. SGL to make an offer on certain Coatalwatch assets
22 December 2015	SGL and the TCI Group enter into an App Branding Licence wherein TCI Group acquired rights to advertising via the SurfStitch platforms
22 December 2015	Entities in the SurfStitch Group enter into five Copyright Licences with the TCI Group for the use of the SGL Group's content
13 February 2016	The Heads of Agreements were terminated
16 February 2016	The terms of the App Branding Licence and Copyright Licences were varried
16 February 2016	SHPL and the TCI Group enter into a Software Licence
16 February 2016	SHPL and Coastalwatch enter into a Store Hosting Agreement
25 February 2016	SGL announces its 1H FY16 results and issues its Interim Financial Report
10 March 2016	SGL Notified the market that Justin Cameron resigns from the SGL Group

Date	Event
3 August 2016	TCI Group filed proceedings No. 3014 of 2016 in the District Court of Queensland against SGL, later transferred to the Supreme Court of Queensland proceedings No. 1430 of 2017
9 August 2016	TCI Group commenced proceedings No. 8056 of 2016 in the Supreme Court of Queensland against SHPL
30 August 2016	FY16 Annual Financial Report released
8 November 2016	TCI Group filed proceedings No. 4422 of 2016 in the District Court of Queensland against SGL , later transferred to the Supreme Court of Queensland proceedings No. 1431 of 2017
10 November 2016	The Company announces that ASIC has commenced an investigation into the Company's disclosures
23 May 2017	SGL was served with a shareholder class action filed in the Supreme Court of Queensland proceeding BS 5111/17
24 May 2017	SGL requests an immediate trading halt
26 May 2017	SGL requests a voluntary suspension on the ASX
29 June 2017	SGL served with the second shareholder class action filed in the Supreme Court of NSW proceeding 2017/193375
2 August 2017	Extraordinary General Meeting of SGL held
24 August 2017	The Board of SGL and the Director of SHPL appoint Administrators

4. SGL Group Information

SGL Management Accounts

- The financial statements for the SGL Group are prepared on a consolidated basis for SGL, SHPL and its subsidiaries. Detailed below is a summary of the management accounts for SGL on a standalone basis to 24 August 2017. The information and comments do not reflect the performance or position of the consolidated Group. A detailed version of SGL's management accounts are provided in **Appendix 5**.

SGL - Comparative Financial Performance

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
EBITDA	(2,007,558)	(159,274,078)	(17,030,599)	273,281
Net Profit/(Loss)	(24,252,315)	(245,229,837)	(31,592,311)	267,030

SGL - Comparative Financial Position

	FY15 (\$)	FY16* (\$)	FY17 (\$)	Aug 2017 \$
Current Assets	94,664,114	9,646,501	2,718,243	6,029,986
Non-Current Assets	132,236,535	40,925,503	21,981,773	17,467,745
Total Assets	226,900,649	50,572,004	24,700,016	23,497,731
Current Liabilities	887,899	896,983	1,330,806	424,896
Non-Current Liabilities	-	879,651	591	1,188
Total Liabilities	887,899	1,776,634	1,331,397	426,084
Net Assets	226,012,750	48,795,370	23,368,619	23,071,647

*FY16 financial position has been adjusted to correctly allocate provision for doubtful debts against the intended current and non-current assets intercompany receivable accounts. The unadjusted management accounts are detailed in **Appendix 5**.

Financial Performance

- SGL was the ASX listed entity and did not operate a business or generate revenue in its own right.
- The net loss detailed in the FY15, FY16 and FY17 largely relate to bad and doubtful debt expense with respect to intercompany loans within the SGL Group and impairment expense booked against the investment in SHPL. A summary of these expenses are as follows:

SGL - Summary of Major Expenses SGL

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
Bad/Doubtful Expense	-	(155,909,698)	(16,587,617)	-
Impairment Expenses	(23,100,000)	(92,061,330)	(17,557,000)	-
Sub-total	(23,100,000)	(247,971,028)	(34,144,617)	-

Financial Position

- As detailed in **Appendix 5**, SGL's assets are predominately made up of cash, intercompany receivables, its investment in SHPL and other prepayments.
- From the end of FY17 to the appointment of Administrators, the cash held in SGL increased by \$3.1million. This was due to the receipt of the final instalment of the funds originating from SHPL's sale of the shares in SHI.
- SGL's liabilities recorded as at August 2017 relate largely to professional advisors costs and current tax liabilities.
- SGL's liabilities over the preceding financial years have been stable as it does not operate in its own right. The current assets held for each period were sufficient to discharge its liabilities.
- SGL recognised impairment expenses for FY15, FY16 and FY17 which is reflected in the reduction in non-current assets relating to the investment held in SHPL.
- SGL did not record any liabilities or provisions for the alleged TCI Group claims or the Class Actions.

4. SGL Group Information

Statement by the Directors of SGL

- On 31 August 2017, and in accordance with Section 438B(2) of the Act, the Directors of SGL provided a statement (**RATA**) detailing the Company's business, property, affairs and financial circumstances as at 24 August 2017.
- SGL's RATA is summarised as follows:

SGL RATA as at 24 August 2017

	Note	Cost or Book Value	Director ERV	Administrator ERV
	s	\$	\$	\$
Assets				
Cash at bank	i	3,424,797	3,424,797	3,424,797
Plant and Equipment	ii	81,871	20,000	20,000
Intercompany Loans	iii	167,669,304	Nil	See notes
Investments	iv	152,800,000	Not Disclosed	See notes
Term Deposits (Blocked)	v	1,253,446	1,253,446	See notes
Total Assets		325,229,418	4,698,243	3,444,797
Liabilities				
Secured Creditors	v	941,446	941,446	Nil
Directors' Claims	vi	22,440	22,440	22,440
Unsecured Creditors	vii	424,967	424,967	1,013,209
Related Entity Claims	viii	6,100	6,100	nil
Total Liabilities		1,394,953	1,394,953	1,035,649
Net Assets		323,834,465	3,303,290	2,409,148

Notes

i. Cash at Bank

Cash at Bank held at appointment.

ii. Plant and Equipment

Plant and equipment held by the Company principally relates to computer equipment and other capitalised software expenses. The Administrators' consider these assets have limited value.

iii. Intercompany loans

SGL holds intercompany loans to SGL Group members with the majority of the intercompany balance relating a loan from SGL to SHPL. The estimated realisable value of the SHPL loan account and investment held in SHPL (note iv), is dependent on the outcome of the Administration of SHPL. Further details on the Administrators' value of the SHPL loan is detailed in the estimated statement of position in **Appendix 15**. A breakdown of the SGL loans to entities within the SGL Group is as follows:

SGL Loans to Entities within the SGL Group

Group Entity	Notes	RATA Cost Value	Administrators' ERV
SurfStitch Holdings Pty Limited	1	167,306,992	See notes
SurfStitch Pty Limited	2	249,121	To be determined
Surfdome Shop Limited	3	102,911	Nil
Metcentral Limited	4	10,280	Nil
Total		167,669,304	

Notes:

- The loan balance is made up of funding for acquisition and working capital, equity issued in SGL to SHPL for acquisition costs and share based payments to Group employees, capitalised interest on the intercompany loan account and a partial repayment in December 2016 and July 2017 from the disposal of SHPL's subsidiary, SHI. The estimated realisable value is dependant on the outcome of the Administration. Details on the estimated return of the loan under a Liquidation scenario is detailed in **Appendix 15**.
- The loan balance was utilised by SSAU for working capital purposes.
- The loan is no longer payable as the SDSL entity has been sold and this loan was forgiven.
- This entity is in the process of being dissolved.

4. SGL Group Information

iv. Investments

This item relates to the investment held in SHPL. The amount in the RATA represents cost value and does not include any provision or impairment raised against the investments. As above, given SHPL is in Administration, the estimated realisable value of SGL's investment in SHPL is dependant on the outcome of the Administration of SHPL.

v. Term Deposits (Blocked) and Secured Creditors

The SGL Group holds facilities with Westpac for bank guarantees, credit card and merchant facilities. SGL does not have a debt payable to Westpac but has guaranteed the obligations under these facilities. The Westpac facilities are secured by blocked term deposit accounts held with SGL and SurfStitch Australia totalling \$1.254million. Collateral held exceeds the exposure under these facilities.

vi. Directors' Claims

Relates to unpaid Directors' fees and expenses for the month of August 2017 to the appointment of Administrators.

vii. Unsecured Creditors

The unsecured creditors listed in the RATA relate to professional advisors' and legal costs, accrued taxation liabilities, other corporate and ASX listing costs. The Administrators' estimate of unsecured creditors is based off Company records and creditor claims received to date.

The figures do not include any claims for Subordinate Group Members. Details on these claims are provided later in this report.

viii. Related Entity Creditors

A breakdown of the related entity creditors detailed in the RATA are as follows:

SGL Related Entities Listed in RATA as Creditors		
Group Entity	Notes	RATA Cost Value
SurfStitch USA Inc.	1	583
SurfStitch Holdings Pty Limited	2	1,800
Total		2,383

Notes:

1. SurfStitch USA Inc had a nominal balance owed by SGL in the management accounts.
2. Although disclosed in the SGL's accounts as a payable, the amount should be offset against the intercompany loan SGL provided to SHPL.

4. SGL Group Information

SHPL Management Accounts

- The financial statements for the SGL Group are prepared on a consolidated basis for SGL, SHPL and all of its subsidiaries. Detailed below is a summary of the management accounts for SHPL on a standalone basis up to 24 August 2017. The information and comments do not reflect the performance or position of the consolidated Group. A detailed version of SHPL's management accounts are provided in **Appendix 6**.

SHPL - Comparative Financial Performance

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
EBITDA	(785,635)	(8,371,174)	(2,181,351)	(255,492)
Net Profit/(Loss)	1,753,499	(14,647,954)	(2,853,084)	200,580

SHPL - Comparative Financial Position

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
Current Assets	35,285,226	642,647	6,584,495	600,334
Non-Current Assets	115,686,208	224,534,677	196,475,765	196,626,509
Total Assets	150,971,434	225,177,324	203,060,260	197,226,843
Current Liabilities	63,630,315	12,137,768	1,345,332	1,248,927
Non-Current Liabilities	-	145,668,811	172,519,750	168,110,328
Total Liabilities	63,630,315	157,806,579	173,865,082	169,359,255
Net Assets	87,341,119	67,370,745	29,195,178	27,867,588

Financial Performance

- SHPL wholly owned the shares of the operating subsidiaries and did not generate revenue in its own capacity.
- SHPL employed head office and shared services personnel who worked within the finance function and other key management positions for the SGL Group.
- The FY16 and FY17 net loss largely relates to expenses incurred for employment of SHPL finance and key management personnel, professional advisors and other head office operating costs.
- SHPL recorded interest revenue from intercompany loans to its subsidiaries, which explains the current year net profit position.

Financial Position

- The current asset position at the end of FY17 related to the sale of SHI in December 2016. From the sale SHPL received the deferred consideration component of \$6million in June 2017. From the proceeds, SHPL paid \$5.5million to SGL in July 2017 in reduction of its intercompany loan.
- The non-current assets are made up of intercompany loans and investments in subsidiaries. There is a reduction to non-current assets in FY17 which is attributable to the write down in asset values following the sale of the subsidiary businesses, Garage Entertainment and SHI.
- SHPL's current liabilities are mostly made up of accrued employee entitlements and provisions, professional advisor and tax related liabilities.
- The non-current liabilities relates to the intercompany loan owed to SGL.
- SHPL did not record any liabilities or provisions for the alleged TCI Group's claim.

4. SGL Group Information

Statement by the Director of SHPL

- On 31 August 2017, and in accordance with Section 438B(2) of the Act, the Director of SHPL provided a statement (**RATA**) about the Company's business, property, affairs and financial circumstances as at 24 August 2017.
- SHPL's RATA is summarised as follows:

SHPL RATA as at 24 August 2017

	Note	Cost or Book Value	Director ERV	Administrator ERV
	s	\$	\$	\$
Assets				
Cash at bank	i	172,095	172,095	172,095
Plant and Equipment	ii	104,987	5,000	5,000
Intercompany Loans	iii	80,152,456	Nil	See notes
Investments	iv	116,996,848	Not Disclosed	See notes
Total Assets		197,426,386	177,095	177,095
Liabilities				
Employee entitlements	v	428,828	428,828	1,001,479
Unsecured creditors	vi	332,690	332,690	438,417
Related Entity Claims	vii	167,318,218	11,226	168,084,315
Total Liabilities		168,079,736	772,744	169,524,211
Net Assets		29,346,650	(595,649)	(169,347,116)

Notes

i. Cash at Bank

Cash at Bank held at appointment.

ii. Plant and Equipment

Plant and equipment held by the Company principally relates to computer equipment and other capitalised software and trademark expenses. The Administrators' consider these assets have limited value on a stand alone basis.

iii. Intercompany Loans

SHPL holds intercompany loans to other wholly owned SGL Group members. The intercompany loans listed in the management accounts are made up of funding of subsidiary working capital, capitalised interest on the loans, foreign exchange losses and issued equity in SGL which was distributed via SHPL to the subsidiaries. A breakdown of the cost value of the SHPL loans detailed in the RATA is summarised as follows:

SHPL Loans to Entities within the SGL Group

Group Entity	Notes	RATA Cost Value	Administrators' ERV
SurfStitch USA Inc	1	40,035,573	Nil
SurfStitch (Europe) Limited	2	18,973,444	Nil
Surfdome Shop Limited	3	11,178,010	11,178,010
SurfStitch Pty Limited	4	7,443,119	To be determined
Rollingyouth Pty Ltd	5	2,520,510	Nil
SurfStitch Group Limited	6	1,800	Nil
Total		80,152,456	

Notes:

- Refer to Section 5 for details on SSUS. No recovery likely for SHPL.
- SSEU discontinued its operations in July 2015. No recovery likely to SHPL.
- The loan will be repaid as part of the Surfdome sale transaction. Details on the transactions are in Section 5.
- The recovery of the intercompany loan to SSAU is dependant on the outcome of the Administration of SHPL. Details on this loan under the DOCA Proposals and Liquidation scenarios are detailed in Section 9 and **Appendix 15**.
- Refer to Section 5 for details on Rollingyouth Pty Ltd. No recovery likely for SHPL.
- SHPL recorded a small loan to SGL, however this should be offset against the SGL loan to SHPL.



4. SGL Group Information

iv. Investments

This item relates to the investment SHPL held in its subsidiaries. As is the case with the SGL RATA, the amount in the RATA represents the cost value and does not include any provision or impairment raised against the investments. As detailed earlier in this report, the Administrators have completed transactions for SurfDome, Magicseaweed and STAB Magazine (refer to Section 5 for details on the realisable value on these business). SHPL's remaining investments are held within SurfStitch Australia business and Swell. As above, details on SHPL's remaining investments under the proposals and Liquidation scenarios are detailed in Section 9 and **Appendix 15**.

v. Employee Entitlements

A breakdown of the employee entitlements, taking into consideration the head count reductions that have occurred during the Administration is as follows:

SHPL Employee entitlements	
	Administrators' ERV
Wages & Superannuation	6,397
Leave Entitlements	228,168
Redundancy and Notice	766,914
Total	1,001,479

The above entitlements are inclusive of all entitlements, for current employees (including any potential redundancy and notice entitlements) and former employees. Pursuant to Section 556 of the Act, excluded employees' priority entitlements are capped. Included in the total above are amounts totalling \$103,187 which are subject to the cap and will rank equally with unsecured creditors. Priority entitlements therefore total \$898,292

vi. Unsecured Creditors

Unsecured creditors does not include any related parties and largely relates to accrued taxation liabilities for the periods just prior to the appointment of Administrators and professional advisors costs. The Administrators' estimate of unsecured creditors is based off a combination of Company records, creditor claims received to date and includes the liability to SGL.

vii. Related Entity Creditors

A breakdown of the related entity creditors detailed in the RATA are as follows:

SHPL Related Entities Listed in RATA as Creditors		
Group Entity	Notes	RATA Cost Value
SurfStitch Group Limited	1	167,306,992
SurfStitch USA Inc	2	5,035
SurfStitch Pty Ltd	3	6,191
Total		167,318,218

Notes:

- As detailed above, SGL has a intercompany loan to SHPL. In the liquidation scenario detailed in **Appendix 14**, this loan account has been estimated between \$168,084,315 and \$130,323,981. Should SHPL be placed into Liquidation an independent adjudication will be undertaken on the claim.
- Although disclosed in the SHPL's accounts as a payable, the amount is wholly offset by the intercompany loan SHPL provided to SSUS.
- Although disclosed in the SHPL's accounts as a payable, the amount is wholly offset by the intercompany loan SHPL provided to SSAU.

Further Comments

- Westpac were not listed in SHPL RATA. Westpac hold security over the Company for the Group's facilities. As detailed above, it is unlikely Westpac will have a claim having regard to the cash security they hold.

5. Strategy and Operations



5. Strategy and Operations

Administrators' Strategy

- Since our appointment, we have worked to stabilise operations and support the subsidiaries' businesses, whilst exploring restructuring options for the Companies in a way that preserves the SGL Group's value and maximises returns to creditors.

Summary of Actions and Strategies

- We have worked closely with the key management of the Companies and the operating subsidiaries through the Administration process.
- Our key strategies and actions to date have involved:

Operational

- Monitoring the operational performance and funding requirements of the SGL Group subsidiaries to ensure the preservation of value.
- Liaising with the subsidiaries key stakeholders of the operational subsidiaries, outlining the impact of the voluntary administration of SGL and SHPL.
- Assisting with the sourcing and placement of key operational funding for SSAU during its key inventory build period.
- Providing assistance to the SGL Group's finance team in the preparation of cash-flow reports and key stakeholder management.
- Operating head office functions for SHPL and SGL.
- Assessment of SHPL's staffing and proceeding with staff redundancies as required.

Subsidiary Transactions

- Conducting an assessment of the subsidiary businesses.
- Continuing sale processes commenced prior to the Administration.
- Negotiating key terms for the sale of certain subsidiary businesses.
- Monitoring the structured wind down of Swell in the US.
- Completing transactions for SurfDome (UK), Magicseaweed (US) and STAB Magazine.
- Attending to post completion matters.

Expression of Interest Campaign

- Commenced a dual track expression of interest campaign for either, the sale of the Australian business SSAU or the recapitalisation of the SGL Group by way of a DOCA.
- Extensive assessment and reverse due diligence on parties that submitted their interest in the SGL Group.
- Negotiations with interested parties on potential sale and/or restructuring options.
- Discussions and negotiations with parties on the terms of DOCA proposals.
- Conducting due diligence on the DOCA proposals and the proponents.
- Assessing the financial impact for all classes of creditors and members under DOCA Proposals and in a Liquidation scenario.

TCI Group Litigation

- Conducting a review and assessment of the TCI Group litigation by extensively considering transactions, pleadings and the evidence disclosed by the stakeholders.
- Negotiating with the TCI Group and reaching a settlement on a no admission of liability basis.

Class Actions

- Assessing class actions commenced prior to the Administration.
- Reviewing the circumstances leading up to the claims.
- Analysing data to determine potential claimants and quantum of the claims.
- Discussions and communication with parties funding the class actions.
- Applying to Court to allow the SGL Group Member Claimants to vote at the Second Meeting pursuant to s600H of the Act.

Investigations

- Review the of the Companies books and records.
- Conducting investigations into the Solvency of the Companies.
- Investigations into potential offences and considering any potential claims in a Liquidation scenario.

Communications

- Communications to all stakeholders regarding the Administration process.

5. Strategy and Operations

Operations in Administration Period

- SGL is the ultimate parent Company of the SGL Group and sole shareholder of SHPL. SHPL is the holding Company and owns 100% of the shares of the operating subsidiary entities.
- The underlying subsidiaries have their own Directors and management, however, during the Administration SGL and SHPL has provided assistance to the management of the subsidiaries to ensure SGL Group’s value was preserved whilst options for recapitalisation and/or sale were explored for the SGL Group.

SHPL Employees

- At the time of the Administration, SHPL employed nine staff predominately in key management and key head office positions, including the Chief Executive Officer, Mr Mike Sonand.
- Throughout the course of the Administration, the head count in SHPL has been reduced to four employees.
- As per the ASX announcement, Mr Sonand ceased being the Chief Executive Officer of the SGL Group on 22 December 2017.

Administrators’ Operating Role

- The Administrators actively monitored the operations of the businesses to ensure the value of SGL Group was preserved.
- In monitoring the operating businesses, the Administrators attended the subsidiaries’ business premises at the Gold Coast, Los Angeles and London to meet with key management and stakeholders to ensure the underlying businesses continued to operate on a business as usual basis.
- The individual cash-flows of the operating subsidiaries were closely monitored to ensure the businesses had sufficient funding, especially for the period August to November which is a key inventory building period for the Christmas trade.
- SurfStitch Australia required external funding to provide additional working capital in the lead up to the Christmas period. In October 2017, the Administrators assisted management of SurfStitch Australia in obtaining external funding.

Summary of VA Funding to Subsidiaries

- In the past, the subsidiaries called upon SHPL and SGL to provide funding assistance in certain peak periods. In the Administration, SurfStitch Australia and SurfDome requested funding from SHPL to assist in their short term cash-flow requirements.
- The funding was provided to ensure the businesses had sufficient liquidity to build up their required inventory levels to support the increased sales in the lead up to the Christmas period and to preserve value whilst sale and/or recapitalisation options were explored.
- SHPL provided the following funding over the Administration period:

Subsidiary	Note	Amount
SurfStitch Australia	1	2,500,000
SurfDome	2	1,340,930

Note:

1. The funding provided to SurfStitch Australia was provided in order to assist the subsidiary’s cash flow in the lead up to the Christmas period. This funding is not expected to be repaid to SHPL.
2. The funding provided to SurfDome occurred prior to the completion of the sale of this business. Details of the sale transaction is included later in this Section.

Transactions relating to Subsidiaries’ Businesses

- Prior to the appointment of Administrators, the SGL Group was undertaking a strategic review of the business and had commenced an expression of interest campaign with the assistance of its financial advisors.
- Upon the appointment of Administrators, the sale processes of certain subsidiaries’ businesses were advanced but had not completed. The Administrators continued the sale processes and negotiations with interested parties which resulted in transactions being completed for the businesses, Magicseaweed, Rollingyouth and SurfDome. Further details on these transactions are discussed below.

5. Strategy and Operations

SurfStitch Australia

Background to SurfStitch Australia

- SurfStitch Australia is an online ecommerce retailer specialising in the sale of action sport, surf wear and associated youth apparel from its website www.surfstitch.com.
- The business was founded in 2007 by Justin Cameron and Lex Pedersen.
- The SurfStitch Australia platform offers a wide range of brands, including numerous vertical brands developed inhouse.
- SurfStitch Australia operates from Burleigh Heads, Queensland and has a distribution centre in Coomera, Queensland.
- Below is a summary of SurfStitch’s financial performance over the two previous financial years:

SurfStitch Australia Financial Performance

	FY16* (AU\$)	FY17 (AU\$)
Revenue	83,571,044	79,483,394
Gross Profit	34,384,278	34,986,232
EBITDA	(984,435)	1,730,546

*FY16 EBITDA adjusted for impairment and restructure costs

Operations during the Voluntary Administration

- During the Administration, SurfStitch Australia has continued to operate under the Direction of Mike Sonand, Justin Hillberg and its key management.
- SHPL, and its Administrators, as the sole shareholder of SurfStitch Australia, have monitored the operations of SurfStitch Australia and worked closely with key management to ensure the value of the business was preserved.

SurfStitch Australia Funding

- As detailed above, SHPL has provided funding of \$2.5million to SurfStitch Australia to assist its working capital in the lead up to the Christmas period. This funding is not expected to be repaid to SHPL.
- In addition, SurfStitch Australia obtained external funding from a third party shortly after the commencement of the Administration. SGL and SHPL provided a letter of comfort for the repayment of this funding. As noted in Section 3, Justice Markovic granted an Order providing the Administrators’ relief from personal liability with respect to the undertakings provided to the third party funder.
- Further details of this funding are contained within the Circular to Creditors dated 26 October 2017.

Expression of Interest Process

- At the commencement of the Administration, an assessment of the SurfStitch Australia business was undertaken.
- From the assessment, the Administrators commenced a dual track expression of interest campaign to either:
 - recapitalise SGL and SHPL with SurfStitch Australia continuing to operate as SHPL’s wholly owned subsidiary. This was explored on a stand alone basis or as part of a merger with another business; or
 - to sell the SurfStitch Australia business.
- The Administrators worked with key management to collate information relevant to the SGL Group and SurfStitch Australia for the expression of interest campaign.
- Adverts were placed in the Australian Financial Review and information memorandums were prepared on the SurfStitch Australia business.
- The Administrators approached numerous parties to gauge interest in the SGL Group and/or the SurfStitch Australia business. As a result 23 separate parties were provided access to the data room which contained the information to assist parties in submitting offers and proposals.
- The first stage of the expression of interest campaign closed on 6 October 2017.
- From the first stage, 7 parties expressed an interest to either recapitalise the SGL Group or to acquire the business.



5. Strategy and Operations

SurfStitch Australia (continued)

Due Diligence

- After reviewing the offers and proposals received from the first stage EOI process, the Administrators shortlisted interested parties and engaged in an extensive due diligence review of the parties and the restructuring options available.
- The due diligence process resulted in some of the parties being shortlisted or withdrawing their interest.

Seeking Final Proposals

- Based on the quantum realised from the sales transactions of SurfDome and Magicseaweed (discussed later in this Section) and the value of SurfStitch Australia, the Administrators determined the Subordinate Claimants have a real financial interest in the outcome of the Administration of SGL, having regard to the projected surplus after all Ordinary Creditors in SGL will be paid in full.
- Given the Subordinate Claimants' financial interest in SGL, the Administrators filed an application under Section 600H of the Act in order to obtain Court orders for Subordinate Claimants to vote at the Second Meeting. The rationale, that all Subordinate Claimants should be entitled to a view on the outcome of the administration, not just the Ordinary Creditors or the representative litigants in the Class Action representing only a small number of Group Member Claimants.
- The Administrators sought to have the application heard in December 2017 and issue notice of the Second Meeting shortly thereafter. However, the Court, given timetable availability, scheduled the matter to be heard on 19 February 2018.
- At the same time, the Administrators sought to arrive at a commercial resolution with the Class Action Funders, representing the representative litigants and a number of the Group Member Claimants, to provide for a consensual way forward. Ultimately, an agreement with the two funders was unable to be achieved.
- As a result of the deferral of the 600H application by the Court and that the Administrators had sought the Courts assistance in progressing the administration, the Administrators called for final proposals by 31 January 2018, closer to time when the application was due to be heard. Further details on the application and Court Orders are detailed in Section 8.

Final Proposals

- The Administrators sought final proposals from the interested parties by 31 January 2018.
- As detailed in Section 9 of this report, two DOCA proposals have been received which affect the structure of the SGL Group and SurfStitch Australia. Further details of these proposals are contained later in this report.

5. Strategy and Operations

Surfdome

Background of Surfdome

- Surfdome is an online action sports retailer based in London, United Kingdom.
- The business was operated by Surfdome Shop Limited (**SDSL**) a wholly owned subsidiary of SHPL.
- SGL Group acquired Surfdome around the time of the ASX listing in December 2014.
- Below is a summary of Surfdome’s financial performance over the two previous financial years:

Surfdome Financial Performance		
	FY16 (GB£)	FY17 (GB£)
Revenue	48,556,960	48,182,695
Gross Profit	17,678,553	19,346,265
Underlying EBITDA	(2,804,065)	(1,863,932)

Sale Process

- In November 2016, SGL engaged financial advisors to assist in a strategic review of the SGL Group and provide advisory services with respect to potential divestment opportunities.
- Prior to the Administrators appointment, the SGL Group and Internet Fusion Limited (**Internet Fusion**) entered into an exclusive process for the sale of Surfdome.
- The Administrators conducted an immediate review on the Surfdome business and the sale process.
- With the assistance of the SGL Group’s financial advisors, the Directors of Surfdome and key management of the business, the Administrators completed a transaction with Internet Fusion for the sale of SDSL.

Sale of Surfdome

- The Administrators of SHPL entered into a Sale and Purchase Agreement with Internet Fusion for the sale of the shares of SDSL and the intercompany loan balances from SHPL and SGL.
- The transaction completed on 10 October 2017 for total consideration of GB£7million, with GB£5million paid to SHPL at settlement and GB£2million deferred until 28 February 2018.
- At completion of the transaction the SGL Group no longer has an interest in the Surfdome business or SDSL.
- Subsequent to the completion, Internet Fusion requested an extension for the payment of the remaining GB£2million. The payment is now expected to be paid on or about 16 March 2018.

Decision to Proceed with Sale to Internet Fusion

- The decision to proceed with the transaction was on the following basis:
 - The sale process was in an advanced exclusive stage prior to the appointment of Administrators.
 - The Surfdome business was a operating at a loss and not contributing to the SGL Group’s overall performance.
 - At the time of the transaction the Administrators had limited cash resources available and were not in a position to provide further funding to the business.
 - The transaction allowed for the continuity of the Surfdome business and the ongoing employment of it’s employees.

Financial Outcome for SHPL

- From the sale process SHPL has received GB£5million (AU\$8.389million) paid at completion and will receive a further GB£2million on or about 16 March 2018.

5. Strategy and Operations

Magicseaweed

Background of Magicseaweed

- Magicseaweed is an online content network business that provides global surf conditions, forecasts and live reporting.
- The business, headquartered in the UK, was operated by Magicseaweed Limited and Metcentral Limited (collectively **Metcentral**) which were ultimately wholly owned by SHPL.
- SGL Group agreed to acquire Magicseaweed in May 2015.
- Below is a summary of Magicseaweed’s financial performance over the two previous financial years:

Magicseaweed Financial Performance		
	FY16 (GB£)	FY17 (GB£)
Revenue	3,010,970	2,248,873
Gross Profit	1,229,012	946,764
Net Profit (Loss)	(116,897)	(512,379)

Sale Process

- In November 2016, SGL engaged financial advisors to assist in a strategic review of the SGL Group and provide advisory services with respect to potential divestment opportunities.
- In July 2017, the SGL Group executed a letter of intent with Surfline Wavetrack Limited (**Surfline**) for the proposed acquisition of Magicseaweed.
- At the time of the Administrators’ appointment, the sale process was well advanced. The Administrators conducted an immediate review on the Magicseaweed business and the sale process.
- With the assistance of the SGL Group’s financial advisors, the Director of Metcentral and key management of the business, the Administrators negotiated the sale terms with Surfline which resulted the parties entering into an agreement for the sale of the business.

Sale of Magicseaweed

- Metcentral and SHPL, in it’s capacity as holding Company, entered into a binding Business Sale and Purchase Agreement with Surfline for the sale of business as a going concern.
- The transaction completed on 17 September 2017 with a sale price of USD\$1.750million plus the assumption of Magicseaweed’s employees’ accrued leave entitlements.

Decision to Proceed with Sale to Surfline

- The decision to proceed with the transaction was made on the following basis:
 - The sale process was in an advanced stage prior to the appointment of Administrators.
 - The Magicseaweed business was a non-core business of the SGL Group, was operating at a loss and potentially required ongoing funding from SHPL.
 - The transaction allowed for the continuity of the Magicseaweed business and the ongoing employment of it’s employees.

Financial Outcome for SHPL

- From the sale process SHPL has received USD\$1.25million (AU\$1.572million), with the remaining funds held by Metcentral to pay outstanding tax liabilities held in the UK subsidiaries.
- On current projections SHPL will receive approximately AU\$300k after all residual liabilities have been paid and the UK entities have been dissolved.
- Creditors should refer to the estimated statement of position of SHPL at **Appendix 15**, for details of how these funds will be applied under the DOCA and Liquidation scenarios.



5. Strategy and Operations

STAB Magazine

Background to STAB Magazine

- STAB Magazine is an online surf publishing network business.
- The business was operated by Rollingyouth Pty Ltd, a wholly owned subsidiary of SHPL.
- SGL Group acquired the STAB Magazine business in May 2015.

Sale of STAB Magazine to Rollingyouth Media

- Prior to the appointment of Administrators, the SGL Group was in discussions with the co-founders of STAB Magazine to sell the business.
- Upon appointment, the Administrators conducted an immediate review of the business and its performance.
- On 8 September 2017, the Administrators sold the business as a going concern to Rollingyouth Media Pty Ltd for nominal cash consideration.
- The transaction was completed on the basis that the business contributed no value to the SGL Group and would require ongoing financial support if it was not sold.

Decision to Proceed with Sale to Rollingyouth Media

- The decision to proceed with the transaction was made on the following basis:
 - The STAB Magazine business was a non-core business operating at a loss and required ongoing funding and financial support from the SGL Group.
 - At the time of the transaction the Administrators had limited cash resources available and were not in a position to provide any funding to the business.
 - The transaction allowed for the continuity of the STAB Magazine business.
 - The business contributed no value to the SGL Group.

Financial Outcome for SHPL

- The transaction was completed for nominal cash consideration.
- By completing the transaction, the Administrators negated any future funding requests the business would have requested of the SGL Group.

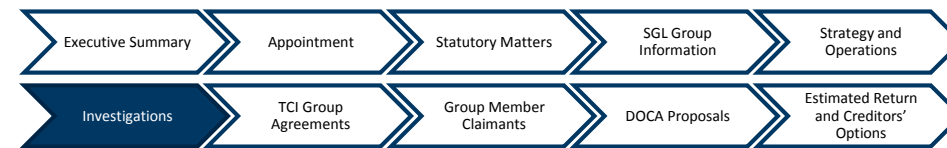
Swell Current Status

- SurfStitch USA Inc (**SSUS**) is a wholly owned subsidiary of SHPL.
- SSUS operated the business Swell, an online retail business selling action sport and surf wear apparel and products from the USA.
- Upon the Administrators' appointment the business was in the process of winding down its operations.
- Swell historically had been a large cash drain on the SGL Group due to the deterioration of retail trading conditions in the USA. This is indicative of the large intercompany balance between Swell and SHPL, detailed in Section 4 which has no prospect of being repaid.
- The business operations have now ceased, however, the SSUS entity still holds some excess inventory and other assets.
- The Administrators determined SSUS does not materially contribute to the value to the SGL Group. The entity will continue to be held as a wholly owned subsidiary of SHPL and its future will be dependent on the outcome of the Second Meeting.

Previous Subsidiaries' Businesses

- Prior to the appointment of the Administrators, the SGL Group operated the businesses Garage Entertainment and Surf Hardware International (**SHI**).
- Garage Entertainment is a content and production business which produces and digitally distributes premium action and extreme sports content. Garage Entertainment was initially acquired by the SGL Group in November 2015 and was sold to Madman Media Group in April 2017.
- SHI is a manufacturer and global supplier of surf related hardware products. SHI was initially acquired by the SGL Group in December 2015 and later sold to Gowing Bros. Limited in December 2016.

6. Investigations



6. Investigations

Investigations

Reason for investigations

- The Administrators have carried out investigations of the Companies' business, affairs and financial circumstances to identify:
 - Potential contraventions of the Act;
 - Transactions that may be potentially recoverable pursuant to Part 5.7B of the Act by liquidators for the benefit of creditors if the Companies are wound up; and
 - Whether current and former directors of the Companies engaged in insolvent trading.
- An explanation of the potential contraventions, recoverable transactions and insolvent trading are provided in the ARITA information sheet entitled Offences, Recoverable transactions and Insolvent Trading at **Appendix 7**. Creditors should read the information sheet in conjunction with our comments in this Section of the report.

Work performed

- In investigating the Companies' business, affairs and financial circumstances, the Administrators have:
 - Reviewed available financial reports and statements;
 - Reviewed correspondence, files and documents relevant to the Companies' financial position and performance;
 - Discussed the Companies' finance function and record keeping practices with key management, including the Chief Financial Officer and Chief Executive Officer;
 - Sought and received information and documents from the Companies; and
 - Conducted various searches of publicly available records.
- Further investigations may be conducted if the Companies are wound up. The Administrators consider that their opinions, as set out in this report, will be unchanged if further investigations are conducted.

Contraventions of the Act

Books and Records

- Section 286(1) of the Act requires a company to keep written financial records that correctly record and explain its transactions, financial position and performance, and enable true and fair financial statements to be prepared and audited.
- Further, Section 344(1) of the Act requires a director to take all reasonable steps to comply with or secure compliance with Section 286(1).
- SGL may have contravened Section 286(1) and one or more of its former directors may have contravened Section 344 in the context and at the time of entering the TCI Group Agreements (see Section 9 for details).
- Otherwise, we have not identified any potential contraventions of Sections 286(1) and 344 of the Act.

Continuous Disclosure, Market Misconduct and Insider Trading

- Sections 674 and 1040A to 1043O of the Act:
 - Requires an ASX listed company to provide continuous disclosure to the ASX of price sensitive information; and
 - Prohibits market misconduct and insider trading.
- SGL and one or more of its former directors may have contravened those sections in the context of the TCI Group Agreements (see Section 7 for details).
- Otherwise, we have not identified any potential contraventions of Sections 674 and 1040A to 1043O of the Act.

Contraventions of Sections 180-184 of the Act

- Sections 180-183 of the Act require a director to:
 - Discharge their duties with due care and diligence;
 - Exercise their powers and discharge their duties in good faith in the best interests of the company and for a proper purpose; and
 - Not improperly use their position or improperly use information to gain an advantage or cause detriment to the company.



6. Investigations

Contraventions of the Act (continued)

- A director who breaches Sections 180-183 may be required to pay damages to the company and/or a pecuniary penalty to the Commonwealth.
- Further, Section 184 of the Act provides that a criminal offence is committed if a director contravenes Sections 180-183 of the Act in a reckless or intentionally dishonest manner.
- One or more former directors of SGL may have contravened Sections 180, 181 and 184 of the Act in the context of the TCI Group Agreements (see Section 7 for details).
- If SGL is wound up at the Second Meeting, a Liquidator will undertake further investigations to determine if there are merits in pursuing claims against one or more of the SGL current or former directors.

Part 5.7B Recovery Actions & Insolvent Trading

Right to commence

- The right to commence recovery actions under Part 5.7B of the Act is contingent on two elements being satisfied:
 - The company being wound up; and
 - A liquidator being able to establish that the company was insolvent at the time it entered into any particular transaction, or that the company became insolvent as a consequence of that transaction.
- Voidable transactions and other actions that are available to a liquidator are not available if a company executes a DOCA.
- As there have been proposals for DOCAs, creditors need to assess the advantages of the DOCAs proposed (and any benefits that may be available to them in these scenarios), compared to the likely return in a liquidation (and any recoveries that may be available where a liquidator is appointed). See Section 10 for forecast returns under a Liquidation and DOCA scenario.

Opinion on solvency

- Our opinion is that **SGL and SHPL were each solvent** at all material times prior to the Administration, as the Companies:
 - were solvent under the cash flow test of solvency; and
 - did not exhibit any of the “usual indicia of insolvency” that Courts have held are consistent with a company being insolvent.
- Further commentary on solvency is provided in **Appendix 8**.
- In the context of solvency, we note the following:
 - neither SGL nor SHPL operated a business or traded in their own right;
 - the external liabilities incurred by SGL and SHPL were confined to corporate and listing costs, taxation liabilities, employment liabilities for key management (SHPL) and professional advisors’ costs;
 - SGL operated as treasury for the SGL Group and held cash at bank for distribution to the SGL Group (including SHPL as required);
 - the external liabilities on appointment were current or subject to genuine dispute. On appointment, SGL had sufficient cash resources (\$3m) to pay all the debts incurred and unpaid by SGL and SHPL (including those the subject of genuine dispute).
 - the claims made by the TCI Group (SGL and SHPL) and the class actions (SGL) in Court proceedings (see Section 8 for further details), were contingent in nature and did not constitute debts due and payable at any time prior to our appointment. The claims were subject to dispute and were being actively defended.
 - SHPL’s intercompany loan balance owed to SGL (\$167m) was repayable only at call and no call had been made by SGL prior to our appointment.
- If appropriate, further investigations will be undertaken on solvency if SGL and SHPL are wound up.

Insolvent trading

- There are presently no grounds on which an insolvent trading claim could be pursued if SGL or SHPL is wound up having regard to the Administrators’ opinion on solvency.

6. Investigations

Recoverable transactions and insolvent trading

■ Detailed below is the Administrators’ preliminary findings in relation to whether or not potential claims for voidable transaction could be pursued into a liquidation scenario.

Area	Comments	Our View on SGL	Our View on SHPL
Unfair preferences	The recovery of preferential payments is contingent on those payments having been made when SGL and/or SHPL was insolvent or because of which SGL and/or SHPL became insolvent. As noted earlier, the Administrators’ preliminary opinion is that neither SGL or SHPL was insolvent prior to the Administrators’ appointment.	No claims	No claims
Uncommercial transactions	Uncommercial transactions are only voidable if the transactions were done at a time when the Company was insolvent or because of which SGL and/or SHPL became insolvent. The Administrators’ preliminary view is that neither SGL or SHPL were insolvent prior to the Administrators’ appointment.	No claims	No claims
Unfair loans	The Administrators have not identified any potential unfair loans that would likely result in property being recovered in a liquidation of either SGL or SHPL.	No claims	No claims
Unreasonable director related transactions	The Administrators have not identified any transactions that may constitute unreasonable director related transactions.	No claims	No claims
Related party transactions	The recovery of related party transactions are only available in the instances where the Company was insolvent at the time the transaction took place. The Administrators’ preliminary view is that neither SGL or SHPL were insolvent prior to the Administrators’ appointment.	No claims	No claims
Arrangement to avoid employee entitlements	The Administrators have not identified any arrangements to avoid employee entitlements.	No claims	No claims
Voidable charges	The Administrators’ investigations have not revealed the existence of any charges that may be void on a winding up.	No claims	No claims
Insolvent Trading	A director will not have engaged in insolvent trading unless either SGL or SHPL were insolvent at the time that the relevant unsecured debt was incurred. The Administrators’ preliminary opinion is that neither SGL or SHPL was insolvent prior to the Administrators’ appointment. Further it is probable that directors would be able to establish a defence to an insolvent trading claim – namely, an expectation based on reasonable grounds that SGL and SHPL were solvent.	No claims	No claims

7. Impact of the TCI Group Agreements

7. Impact of the TCI Group Agreements

Introduction

- On 22 December 2015 and 16 February 2016, the SGL Group entered into a series of agreements with the TCI Group (collectively **TCI Group Agreements**). As detailed below, those agreements had some unusual characteristics which resulted in:
 - the TCI Group commencing contested Court Proceedings against the SGL Group (**TCI Group Proceedings**);
 - 2 representative Court proceedings (**Class Actions**) being commenced against SGL in the Supreme Court of Queensland and the Supreme Court of New South Wales, respectively;
 - allegations being made in the Second Class Action against Mr Justin Cameron, founder, former director and former CEO of SGL, to the effect that he breached his director duties when causing the SGL Group to enter into the TCI Group Agreements; and
 - an investigation by ASIC into the affairs of the SGL Group.
- The existence of the TCI Group Proceedings and the Class Actions - including the legal costs and management time associated with those matters and the contingent liability for damages - were significant factors in the decision to appoint Administrators to SGL and SHPL.

Chronology of events

- A chronology of events relevant to the above matters is shown in the adjacent table.
- The chronology is an abridged summary and is prepared solely to provide creditors with a general understanding of the key events. The background has been prepared in good faith but does not necessarily include all events that may be required to obtain a full and complete understanding of all matters related to the proceedings.

Date	Event
27-Aug-15	ASX announcement providing FY16 EBITDA guidance of between \$15m and \$18m.
23-Oct-15	ASX Announcement reaffirming FY16 EBITDA guidance.
10-Nov-15	ASX Announcement reaffirming FY16 EBITDA guidance.
12-Nov-15	ASX Announcement reaffirming FY16 EBITDA guidance.
25-Nov-15	ASX Announcement: <ol style="list-style-type: none"> 1. reaffirming FY16 EBITDA guidance (assuming that the EBITDA contribution of newly acquired SHI Holdings is excluded); and 2. providing pro-forma FY16 EBITDA guidance (including the EBITDA contribution of SHI Holdings) of between \$18m and \$22m.
22-Dec-15	The SGL Group (under the direction of Mr Justin Cameron, CEO) and the TCI Group enter into the first set of TCI Group Agreements, namely Copyright Licences, an App Branding Licence, two Heads of Agreement for an Acquisition and IP Licence agreement. Under those agreements the SGL Group would: <ol style="list-style-type: none"> 1. receive a \$20.3m lump sum payment under the Copyright Licences; 2. make a payment of \$2m under the App Branding Licence; and 3. use best endeavours to acquire assets of Coastalwatch, the TCI Group company obliged to make the \$20.3m payment discussed above. The execution of the Heads of Agreement may not have been disclosed to the SGL Board.
13-Feb-16	The Acquisition and IP Licencing Heads of Agreements were terminated



7. Impact of the TCI Group Agreements

Date	Event
16-Feb-16	<p>The SGL Group (again under the direction of Mr Cameron) and the TCI Group entered into a second set of TCI Group Agreements, namely variations to the Copyright Licences and App Branding Licence, and new Store Hosting and Software Licence Agreements. Under those agreements SGL Group would:</p> <ol style="list-style-type: none"> 1. receive the \$20.3m payment under the Copyright Licences in 10 equal annual instalments, rather than as a lump sum; 2. pay an additional \$500k in 2 equal instalments under the App Branding Licence, in return for premium content; 3. pay \$8m in 10 equal annual instalments under the Store Hosting Agreement; 4. pay USD\$9.7m (approx. AU\$12m) in 10 equal annual instalments under the Software Licence Agreement. <p>The execution of the second set of TCI Group Agreements may not have been disclosed to the SGL Board.</p>
25-Feb-16	ASX Announcement advising that EBITDA for the 6 months to 31-Dec-15 was \$13.9m. In calculating EBITDA, SGL recognised the payment obligation of \$20.3m under the Copyright Agreements as revenue.
10-Mar-16	Justin Cameron resigns as CEO of SGL and departs the company. SGL subsequently appoints Mike Sonand as Chief Operating Officer of the SGL Group.
3-May-16	ASX Announcement providing reduced FY16 EBITDA guidance of between \$2m and \$3m following a change to revenue recognition principals under the Copyright Licences, following the amendment of the payment terms.
May-16	SGL Group receives \$2m under the Copyright Licences and pays approximately the same amount under the Store Hosting Agreement and the Software Licensing Agreement.
9-Jun-16	ASX Announcement providing reduced FY16 EBITDA guidance of between negative \$17.3m and negative \$18.3m due, in part, to a further change to revenue recognition under the Copyright Licences
30-Aug-16	ASX Announcement advising that FY16 EBITDA was negative \$18.8m

Financial impact of the TCI Group Agreements

- The financial impact of the TCI Group Agreements was as follows:
 - Under the Copyright Licences executed in December 2015, SGL recognised an EBITDA contribution of \$20.3m for the six months to 31 December 2015;
 - SGL Group paid \$2.0m (plus GST) to the TCI Group under the App Branding Licence on 16 February 2016;
 - On signing of the second set of TCI Group Agreements, the SGL Group and the TCI Group would be able to “net off” amounts payable under the Copyright Licences with amounts payable under the Store Hosting and Software Licence Agreements – so that the SGL Group would not receive any net cash payment under the Copyright Licences; and
 - The variation to the payment terms of the Copyright Licences resulted in SGL recognising an overall EBITDA contribution of \$2.3m for the 12 months to 30 June 2016, a net reversal of \$18m of revenue recognised under the original December agreements.

TCI Group Proceedings

Commencement of proceedings

- In May 2016, following the departure of Mr Justin Cameron (March 2016), the SGL Group resolved to not make any further payments to the TCI Group and terminated the Software Licensing Agreement.
- In response, the TCI Group asserted that a payment under the App Branding Licence had become due and payable, that the SGL Group had infringed its rights under the App Branding Licence, and that the SGL Group had no right to terminate the Software Licensing Agreement.
- Between 3 August 2016 and 8 November 2016, the TCI Group commenced 3 sets of proceedings (collectively the TCI Group Proceedings) for:
 - Payments under the App Branding Licence;
 - Specific Performance of the App Branding Licence; and
 - Damages for wrongful termination of the Software Licensing Agreement.



7. Impact of the TCI Group Agreements

TCI Group Proceedings (continued)

Response of the SGL Group

- The SGL Group filed defences, counter claims and third party notices denying any liability to the TCI Group.
- Those documents pleaded, amongst other matters, that:
 - the SGL Group had no liability to the TCI Group due, in part, to the overall nature and effect of the TCI Group Agreements including the parties' intentions in entering into the agreements; and
 - if such a liability existed, Mr Cameron's conduct in causing the SGL Group to enter into the TCI Group Agreements constituted a breach of his director duties for which he must compensate the SGL Group. We comment further on the alleged breach of director duties by Mr Cameron later in this section.

Events during the Administrations

- On or around 30 August 2017, the TCI Group lodged formal proofs of debt in the Administrations of SGL and SHPL for an aggregate amount exceeding \$20m.
- Following the lodgement of those proofs of debt, the Administrators and the TCI Group met and agreed to settle all claims made in the TCI Group Proceedings on terms requiring SGL and SHPL to pay the TCI Group an amount substantially less than that claimed on a 'without any admission as to liability' basis.
- Following the settlement payment, the TCI Group:
 - discontinued the TCI Group Proceedings;
 - withdrew the proofs of debt lodged in the Administrations; and
 - no longer has any admissible claims in the Administrations.

Class actions

Introduction

- SGL is the defendant to two funded representative proceedings (**Class Actions**) commenced on 22 May 2017 in the Supreme Court of Queensland (**First Class Action**) and on 28 June 2017 in the Supreme Court of New South Wales (**Second Class Action**) respectively. Mr Cameron is also a defendant to the Second Class Action.
- The First Class Action is funded by Vannin Capital and the Second Class Action is funded by International Litigation Partners No.2 Pty Ltd.
- Both Class Actions were at an early procedural stage when the Administrations commenced. SGL had not been ordered to file a Defence in either Class Action and had not done so. The Class Actions are stayed during the Administrations unless the Administrators consent or the Court grants leave to proceed.
- The Administrators do not intend to consent to the Class Actions proceeding. Instead, the Administrators intend to resolve the claims brought in the Class Actions under a proof of debt adjudication process following the Second Meeting.
- Although the Class Actions are stayed, limited interlocutory orders have been made. The Supreme Court of Queensland has cross vested the First Class Action to the Supreme Court of NSW. This means that both Class Actions could, potentially, be case managed in parallel by the same judge, if the Court gives leave for the actions to proceed.

Claims made in the Class Actions

- The representative parties to the two Class Actions make similar claims against SGL. They allege that between 27 August 2015 and 8 June 2016, SGL contravened its ASX continuous disclosure obligations with respect to:
 - its forecasting of FY16 EBITDA; and
 - its reporting of actual EBIDTA for the 6 months to 31 December 2015.



7. Impact of the TCI Group Agreements

Class Actions (continued)

- The representative parties allege that SGL knew that the following ASX announcements were misleading and deceptive and that they did not take any sufficient steps to correct the misleading disclosures until 9 June 2016:
 - ASX announcements on 27 August 2015, 23 October 2015, 10 November 2015 and 12 November 2015 to the effect that SGL's forecast FY16 EBITDA would be between \$15m and \$18m;
 - ASX announcement on 25 November 2015 reaffirming FY16 EBITDA guidance (excluding the EBITDA contribution of newly acquired SHI Holdings) and providing pro-forma FY16 EBITDA guidance (including the EBITDA contribution of SHI Holdings) of between \$18m and \$22m;
 - ASX announcement on 25 February 2016 to the effect that SGL's actual EBITDA for the 6 months to 31 December 2015 was \$13.9m; and
 - ASX announcement on 3 May 2016 to the effect that SGL's forecast FY16 EBITDA would be between \$2m-\$3m.
- The representative plaintiffs claim, amongst other matters, that:
 - the SGL Group would not have entered into the TCI Group Agreements unless SGL knew on the dates of the 2015 ASX Announcements that it would not be able to achieve guidance for FY16 EBITDA; and
 - SGL did not correctly account for the 16 February 2016 changes to the payment terms of the Copyright Licences, when announcing actual EBITDA for the 6 months to 31 December 2015 and providing guidance for FY16 EBITDA in the 25 February 2016 and 3 May 2016 ASX Announcements.

Liability and quantum

- The issues raised in the Class Actions raise complex issues of fact and law and the Administrators have not, as yet, formed a concluded view on liability. A concluded view will only be formed after the future of SGL has been determined at the Second Meeting.
- If some or all of claims made in the Class Actions are admitted, the quantum of those claims has the potential to be significant and in excess of the available assets of the SGL Group. Our initial assessment suggests that the claims may exceed \$85m. This assessment assumes that all current and former shareholders eligible to participate in the Class Actions as group members lodge proofs of debt.
- An explanation of which current and former shareholders are entitled to lodge proofs of debt with the Administrators of SGL is provided at Section 8.
- Please note that any right to participate in the Class Actions or to lodge a proof of debt does not create an automatic entitlement to a dividend from SGL. Subordinate Claimants will need to have their Claims admitted to proof.



7. Impact of the TCI Group Agreements

Breach of director's duties by Mr Cameron

Allegations made by the SGL Group in the TCI Group Proceedings

- As noted previously, SGL alleged in the TCI Group Proceedings that Mr Cameron breached his director duties.
- SGL alleged that Mr Cameron did not:
 - act in good faith;
 - in the best interests of SGL; and
 - act for a proper purpose,
 when he caused the SGL Group to enter into the TCI Group Agreements and in doing so contravened Section 180 of the Act;
- SGL further alleged that the TCI Group Agreements were entered into for the purpose of inflating the revenue and profit of SGL by approximately \$18.3m (being the amount of the lump sum payment of \$20.3 under the Copyright Licences less the payment of \$2.0m under the App Branding Agreement) in circumstances where the SGL Group would not receive the amount of \$18.3m as a cash payment (due to the netting off of payments under the Store Hosting and Software Licence Agreements).
- In support of its allegations, SGL referred to specific emails, board minutes and conversations to support its allegations.
- Those documents and conversations are prima facie consistent with the allegations made by SGL against Mr Cameron.
- **Please note that the Administrators have not spoken with Mr Cameron about the allegations made against him and no concluded view has been reached on whether Mr Cameron breached any director duties.**

ASIC Investigation

- On or about 25 July 2016, ASIC commenced an investigation into the TCI Group Agreements.
- The Administrators understand that ASIC has issued notices under Section 19 of the ASIC Act to certain individuals who were members of the SGL Group senior management at the time that the TCI Group Agreements were entered into.
- A Section 19 notice requires the named person to appear before ASIC for examination on oath or affirmation and to answer questions.
- SGL has advised that ASIC is investigating, amongst other matters, suspected contraventions of the following sections of the Act and, as far as it is aware, the investigation is on-going:
 - Sections 180, 181, 184: Civil and criminal breaches of directors duties;
 - Section 344(2): Financial reporting contravention by Director;
 - Section 674: Continuous disclosure contraventions;
 - Sections 1041E, 1041F, 1041H: Market misconduct;
 - Section 1043A: Insider trading; and
 - Section 1309: Provision of false or material information by an officer or employee.

8. Group Member Claimants



8. Group Member Claimants

Introduction

- This section is for the benefit of creditors of SGL (including Group Member Claimants entitled to participate in either of the 2 Class Actions – as detailed below) who have:
 - A claim for a debt owed by SGL in Creditor’s capacity as a member (shareholder) of SGL (whether by dividends, profits or otherwise); or
 - Any other claim that arises from buying, holding, selling or otherwise dealing in shares of SGL (together, Subordinate Claimants).
- Section 563A of the Act refers to those claims as subordinate claims and provides that the payment of the claims are postponed (or cannot be paid by way of dividend) until all other debts payable by, and claims against, SGL are satisfied (i.e. debts owing to and claims made by Priority (Employee) Creditors and Ordinary Unsecured Creditors).
- Subordinate Claimants cannot vote at the SGL Second Meeting unless the Court makes orders (see section 600H(1)(b)).

Claims of the Group Member Claimants

- The representative shareholder parties in the 2 Class Actions allege SGL engaged in misleading or deceptive conduct, breached its continuous disclosure obligations and, as a consequence, caused loss to Group Member Claimants.
- A Group Member Claimant is a current or former shareholder of SGL who acquired and held shares of SGL during defined periods and on the dates specified in the following table. The overlap between the categories arise from the manner in which the claims are brought in the 2 Class Actions.

Acquisition Period	Holding Dates
27 August 2015 to 24 February 2016 (inclusive)	25 February 2016, 3 May 2016 or 9 June 2016
25 February 2016 to 2 May 2016 (inclusive)	3 May 2016 or 9 June 2016
3 May 2016 to 8 June 2016 (inclusive)	9 June 2016
Prior to 23 October 2015	Any date 23 October 2015
23 October 2015 to 9 June 2016	25 February 2016, 3 May 2016 or 9 June 2016

Group Member Claimants must note that their right to participate in the Class Actions does not, by itself, create an entitlement to a dividend or issue of shares from EziBuy or SGL. The entitlement to participate in a dividend/share issue will depend on the Group Member Claimant lodging a formal proof of debt for distribution purposes and adjudication on those proofs.

Subordinate Claimants’ right to vote at Second Meeting

- Subordinate Claimants are entitled to vote at the Second Meeting following the orders made by Justice Brereton on 22 February 2018, as outlined in our Circular dated 1 March 2018.
- The right to vote is dependent on Subordinate Claimants (including Group Member Claimants):
 - Establishing that they have a claim; and
 - Lodging particulars of or a formal proof of debt with respect to the claim by the time specified in the notice convening the SGL Second Meeting.



8. Group Member Claimants

Right to this report to creditors

- Justice Brereton also ordered that a Group Member Claimant or any person with a subordinate claim may request a copy of this Report to Creditors in writing and made of the Administrators.
- A copy of the Report is also available on our Website at <http://www.fticonsulting-asia.com/creditors/surfstitch-group-limited>.

Variation of payment priorities

- Justice Brereton also ordered that creditors cannot resolve that SGL execute a DOCA that contemplates payment to Group Member Claimants and any person with a subordinate claim before payment is made to other creditors and employees, unless first approved by those other creditors and employees. This is to ensure that priority creditors and unsecured creditors continue to be afforded their priority over Subordinate Claimants, unless they agree otherwise.
- We note that neither the EziBuy Proposal or the Cheadle Group Proposal submit a variation to the payment priorities under the Act.

Identification of Group Member Claimants

- The Administrators identified potential Group Member Claimants by analysing the share registers and share transaction records maintained by SGL's share registry (the **Identification Process**).
- Based on the Identification Process undertaken, over 3,000 parties were identified as being potential Group Member Claimants.
- Please note that any Group Member Claimant that has not been identified during the Identification Process is still eligible to vote at the Second Meeting – subject to the conditions outlined on the previous page.

Quantification of Potential Group Member Claims

- The Administrators have not been provided with sufficient information by Group Member Claimants, or the funders representing them, to determine the quantum of their potential claims.
- The onus remains for Group Member Claimants to prove their claim and the Administrators have not formed a final view on the quantification of the potential Group Member Claims.
- For the purposes of assessing the forecasted return to Group Member Claimants under the Liquidation and DOCA proposals scenarios, the Administrators have adopted amount of \$85m as the potential exposure to Group Member Claimants.
- Ultimately Group Member Claimants will be required to provide evidence and particulars of their claim and include material to quantify their loss.

Process to lodge claims with via Link Insolvency Solutions

- Potential Group Member Claimants identified through the Identification Process, will receive an Informal Proof of Debt and Appointment of Proxy Form for the SGL Second Meeting from Link Insolvency Solutions (the **Link POD and Proxy**).
- The Link POD and Proxy forms will include a unique number and barcode to assist in identifying potential claimants.
- As detailed above, Group Member Claimants are eligible to vote at the SGL Second Meeting, if;
 1. they are able to establish they have a claim; and
 2. they lodge particulars of or a formal proof of debt with respect to their claim by the time specified in the notice convening the SGL Second Meeting.
- Instructions on how to submit the Link POD and Proxy forms with Link Insolvency Solutions are provided in the Circular to Group Member Claimants.
- Group Member Claimants will bear the onus providing particulars and sufficient material to quantify their claim which should be attached to the Link POD.
- **Group Member Claimants must lodge the Link POD, with particulars of their claim and Link Proxy (if applicable) with Link Insolvency Solutions as directed on the Circular to Group Member Claimants prior to 2:00pm AEDT on 29 March 2018**

9. Deed of Company Arrangement Proposals



9. Deed of Company Arrangement Proposals

Introduction

- The Administrators have received 2 proposals for Deeds of Company Arrangement for SGL and SHPL. Both proposals require approval of creditors of both SGL and SHPL.
- If this does not occur, liquidators may be appointed to SGL and SHPL and the companies will be wound up.
- The DOCA proposals have been submitted by:
 - Ezibuy Holdings Ltd NZBN 9429033569444, which is owned by Alceon Group (**EziBuy**); and
 - Abigail Cheadle (a non-executive director of SGL), Justin Hillberg, Tony Nash, Leonie Henzell and Jon Brett (**Cheadle Group**).
- Detailed in this section is a summary of the DOCA proposals and forecasted returns under each of the proposals.
- **Appendix 9 to 13** and earlier in Section 1, details additional information on the proposals, namely:
 - Copies of the DOCA Proposals;
 - Information about EziBuy;
 - Information about SGL (post restructure) under the Cheadle Group Proposal;
 - Comparative table summarising the benefits and risks of the proposals (Section 1); and
 - A statement as required by ASIC under Regulatory Guide 82 with respect to the Cheadle Group Proposal as it incorporates a Creditors' Trust.

Overview of DOCA Proposals

- The DOCA proposals each provide for:
 - a cash dividend for Priority Employee and Ordinary Creditors;
 - an allotment of shares to Group Member Claimants (to which the proposal refer as the Class Action Claimants); and
 - a reduction in shareholding to non-Group Member Claimants.
- The EziBuy Proposal provides for an additional cash dividend to Group Member Claimants.
- The shares to be allotted under the DOCA proposals are for different companies:
 - Under the EziBuy Proposal – shares would be issued in the EziBuy parent company; and
 - Under the Cheadle Group Proposal – shares would be issued in SGL, which would remain the parent company of the SGL Group post DOCA. Post DOCA, the SGL Group would only own the SSAU business, as other previous businesses in the SGL Group were either sold or being wound down during the Administration (as advised earlier in this report).
- The DOCA Proposals also preserve value for current shareholders of SGL as follows:
 - EziBuy Proposal – current shareholders would be issued shares in the EziBuy parent company. Current shareholders will also retain their shares in SGL – but those shares will be of no value if the SSAU business is sold to EziBuy.
 - Cheadle Group Proposal – current shareholders would retain their shares in SGL. The DOCA proposal provides for additional shares to be issued, including those to the Group Member Claimants. When those shares are issued, current shareholders will have an aggregate 47.85% interest in SGL.



9. Deed of Company Arrangement Proposals

Summary of EziBuy Proposal

Introduction

- The below summary represents the Administrators current understanding of the EziBuy Proposal. The Administrators may supplement the summary prior to the creditors' vote if further information is received.

Deposit to ensure DOCA execution

- EziBuy would provide a deposit of \$200,000 to the Administrators no later than one clear business day prior to the Second Meeting, to ensure the DOCA is executed if Creditors of both SGL and SHPL resolve that the DOCA be executed.
- The deposit would be forfeited if EziBuy does not execute the DOCA within ten (10) business days after Creditors of both SGL and SHPL resolve that the DOCA be executed. If the DOCA is executed within ten (10) business days or the SGL and SHPL Creditors do not pass the necessary resolutions - then the deposit would be refunded in full to EziBuy.

Deed Administrators

- The Administrators would be appointed the Deed Administrators of the DOCA.

EziBuy acquisition

- EziBuy would acquire the shares of SSAU, certain IP and assets of SSUS and all IP and other assets used by SSAU that are owned by other members of the Group, including the brand names and trademarks "Depactus", "No News", "Trouble Loves Company" on a cash free debt free basis (subject to normalised working capital adjustments). Thereafter, EziBuy proposes to operate the SSAU business alongside its other retailing operations.

Deed funds

- The EziBuy DOCA would establish Deed Funds for the benefit of SHPL and SGL Creditors (including Group Member Claimants) and SGL Shareholders. The Deed funds would comprise of:

- **For SHPL Creditors**

- Cash held by the Administrators in their bank account;
 - Proceeds from the realisation of SHPL assets; and

- Proceeds from the realisation of SHPL assets.

- **For SGL Creditors & Shareholders**

- Cash held by the Administrators in their bank account;
 - An amount of \$898k held by Westpac in a blocked account;
 - Any cash held in the SHPL Deed Fund and proceeds from the realisation of other SHPL assets following payment of all SHPL Creditors in full; and
 - Convertible Notes – in the amount of \$15m, which are to be for the sole benefit of the Group Member Claimants and Shareholders, which will mandatorily convert to shares in the EziBuy parent company as explained below.

- Insured claims against SGL or SHPL with respect to the TCI Group Agreements will not form part of the Deed Fund and will instead be paid in accordance with Section 562 of the Act.

Convertible Notes

- EziBuy is not offering to pay cash to acquire the shares of SSAU or the other IP assets.
- Instead, it proposes to issue a convertible note to SHPL, for the face value of \$15m, which will convert to shares in the EziBuy parent company on the earlier of the following:
 - a "liquidity" event (which includes an IPO or trade sale) – on which EziBuy advises it is working "*as soon as is reasonably practicable, subject to maximising returns to all shareholders and Convertible Note holders*"; and
 - 3 years from the issue of the Convertible Note.
- Until that event occurs, the Deed Administrators would hold 15m Convertible Notes in a total aggregate amount of \$15m (i.e. \$1 per note).
- Subordinate Claimants and SGL Current Shareholders will:
 - On an Initial Public Offering – hold shares in a listed company and would be able to sell their shares on market; and
 - On a trade sale – receive a pro-rata payment on their EziBuy shares.
- If EziBuy enters into external administration before the Convertible Notes convert to shares – the Deed Administrators would be entitled to lodge a proof of debt in the external administration for \$15m on behalf of the Group Member Claimants and SGL Shareholders.



9. Deed of Company Arrangement Proposals

Summary of EziBuy Proposal (continued)

Conversion formula and share allocation

- The Convertible Notes would mandatorily convert to between 5% and 10% of EziBuy’s expanded share capital on a fully-diluted basis at the time of conversion, based on a conversion formula set out in Schedule B to the DOCA proposal – see **Appendix 9**.
- Following conversion, the issued shares would be distributed:
 - As to 80% to the Group Member Claimants; and
 - As to 20% to the existing Shareholders of SGL.
- If a Group Member Claimant or existing Shareholder would hold less than 100 shares in EziBuy, EziBuy reserves the right to pay cash value in lieu of issuing shares.

Participating Creditors

- All creditors of SHPL and SGL with a Claim would have a right to lodge a proof of debt under the relevant DOCA. Other than the distribution of the Convertible Notes to SGL, all SGL Group companies are excluded from so participating.

Moratorium on claims

- For the duration of the DOCA no proceedings or enforcement process can be commenced or proceeded with against SGL or SHPL or in relation to any property of those companies.

Order of priority and extinguishment of claims

- The Deed Funds will be distributed in the following order of priority. On distribution of the Deed Funds all claims against SGL and SHPL will be extinguished.

SHPL Deed Fund

Priority	Recipient
1.	The Administrators on account of remuneration, costs and expenses which remain unpaid on commencement of the DOCA
2.	The Deed Administrators on account of remuneration, costs and expense associated with administering the DOCA
3.	Participating Creditors that are priority creditors in accordance with the Act on account of admitted Claims
4.	Participating Creditors that are non-priority creditors pro-rata in accordance with the Act on account of admitted Claims
5.	SGL on account of any surplus following payment of 1-4 above and the Convertible Notes

- In the absence of any Creditor dispute about the Deed Administrators’ adjudication of proofs of debt, the Administrators estimate that cash dividends will be paid to Participating Creditors within 6 to 8 weeks of execution of the DOCA.



9. Deed of Company Arrangement Proposals

Summary of EziBuy Proposal (continued)

SGL Deed Fund

Priority	Recipient
Cash component	
1.	The Administrators on account of remuneration, costs and expenses which remain unpaid on commencement of the DOCA
2.	The Deed Administrators on account of remuneration, costs and expense associated with administering the DOCA
3.	Participating Creditors that are priority creditors in accordance with the Act on account of admitted Claims
4.	Current employees of SSAU as a retention bonus – to a maximum of \$250k
5.	Participating Creditors (other than Subordinate Claimants) that are non-priority creditors pro rata in accordance with the Act on account of admitted Claims
6.	Priority and non-priority Participating Creditors (other than Subordinate Claimants) on account of statutory interest on admitted Claims pro rata
7.	Subordinate Claimants pro-rata in accordance with the Act on account of admitted claims
EziBuy shares component	
1.	Group Member Claimants pro rata as to 80%
2.	Current shareholders of SGL pro rata as to 20%

Estimated timing of dividend under EziBuy Proposal

- **Priority and non-priority Participating Creditors (other than Subordinate Claimants):** In the absence of any Creditor challenging the Deed Administrators' adjudication of their proof of debt, the Administrators estimate that cash dividends will be paid within 6 to 8 weeks of execution of the DOCA.
- **Group Member Claimants:** The Administrators in their capacity as Deed Administrators will work towards an expedited adjudication of the Group Member Claims. However the claims involve complex issues of fact and law. As such there is a potential for it to take at least 6-12 months before any cash dividend is paid.
- Shares in the EziBuy parent company will be issued to Group Member Claimants on the latter of the following dates:
 - On about the date on which all Group Member Claimants claims have been determined; and
 - On about the date on which the convertible note converts to shares.
- **Shareholders:** Shares in the EziBuy head company will be issued to SGL shareholders on about the date on which the convertible notes convert to shares, irrespective of whether the Group Member Claims have been adjudicated by the Deed Administrators. The shares will be issued pro-rata to the shareholdings shown on the SGL share registry as at the Appointment Date.
- The DOCAs will terminate when the Deed Administrators give notice to the ASIC that the DOCAs have been performed, if the Court makes an order terminating the DOCA or the creditors pass a resolution terminating the DOCA, otherwise in accordance with the Act.



9. Deed of Company Arrangement Proposals

Summary of Cheadle Group Proposal

Introduction

- The below summary represents the Administrators current understanding of the Cheadle Group Proposal. The Administrators may supplement the summary prior to the creditor vote if further information is received.
- Creditors must note that the Cheadle Group Proposal includes the use of a Creditors' Trust in addition to a DOCA. The concept of a Creditors' Trust and the difference between a Creditors' Trust and DOCA is explained in **Appendix 13**.

Condition precedent

- Sam Weiss, Harry Hodge and Mike Sonand must resign as directors before the DOCA is executed.

Deed Administrators

- The Administrators would be appointed the Deed Administrators of the DOCA and Trustees of the Creditors' Trust.

Deed Funds

- Deed funds would be established under the DOCA from the existing cash currently under the control of the Administrators and future proceeds received by the Administrators. The Deed Funds are forecast to comprise:
 - **For SHPL Creditors**
 - An amount sufficient to pay Priority and Ordinary Unsecured Creditors (excluding related companies) a dividend of 100 cents in the dollar.
 - **For SGL Creditors**
 - An amount sufficient to pay Priority and Ordinary Unsecured Creditors (excluding related companies) an amount similar to that which they would receive in a winding up, being a forecast dividend of 100 cents in the dollar plus statutory interest at the rate of 8% accruing from the Appointment Date until the date on which the dividend is paid.
 - No contribution would be made to the Deed Fund for the benefit of the Group Member Claimants. In lieu of a cash dividend, SGL would issue shares to Group Member Claimants – refer to the following page for further details.

■ For the Administrators

- An amount sufficient to pay the forecast remuneration and expenses of the Administrators in their capacity as Administrators of SGL and SHPL, Deed Administrators of the DOCA and Trustees to the Creditors' Trust in the amounts shown in the Estimated Returns to Creditors at **Appendix 15**.

- The Cheadle Group has advised that the quantum of the Deed Funds are not guaranteed and are subject to the forecast proceeds being received by the Administrators and trading performance of SSAU in the interim to ensure sufficient working capital.

Moratorium on claims

- For the duration of the DOCA, in respect of claims, no proceedings or enforcement process can be begun or proceeded with against SGL or SHPL or in relation to any property of those companies.

Effectuation of DOCA and extinguishment of claims

- After the Deed Funds are established, the DOCA would be effectuated and the funds transferred to a Creditors' Trust.
- On the effectuation of the DOCA:
 - control of SGL and SHPL would revert to the appointed directors;
 - claims of the Priority and Ordinary Unsecured Creditors of SGL and SHPL would be extinguished. The creditors would become beneficiaries of the trust and be entitled to a dividend, in accordance with the terms of the trust deed; and
 - The Claims of the Group Member Claimants would also be extinguished – but SGL would still be required to issue shares to the claimants.

9. Deed of Company Arrangement Proposals

Summary of Cheadle Group Proposal (continued)

Share issue to Group Member Claimants & Other Parties

- SGL would issue sufficient shares to the Group Member Claimant for them to collectively hold 30% of the issued share capital of SGL post restructure.
- For Group Member Claimants to be issued shares, they must have lodged a proof of debt and have had that proof admitted.
- SGL contemplates that further shares would be issued to Greenwich Partners (in consideration for an investment of up to \$4m) and the proponents of the Cheadle Group Proposal (in consideration for the costs incurred in formulating the DOCA).
- The post restructure shareholdings and percentages of SGL are shown in the following table.

Class	Shares	%
Bond Funders (assuming full \$4m is invested – otherwise prorate at 5.28% for each \$1m invested)	122,932,661.47	21.10%
DOCA and restructuring advisors fees	6,146,633.07	1.05%
Group Member Claimants	174,826,840.52	30.00%
Current Shareholders	278,850,000	47.85%

- Following the issue of the shares, SGL would apply for reinstatement of its quotation on the ASX.
- Should, the ASX not be reinstated to quotation on the ASX, SGL would offer to redeem any shares issued to Group Member Claimants at market value.

Compliance and transaction risks

- The Cheadle Group Proposal proposes that Shares are issued by SGL without shareholder approval, within 60 days after the effectuation of the DOCA. The Administrators consider a share issue without shareholder approval will require SGL to either be delisted or for the ASX to waive the requirement for shareholder approval. Without discussing the matter with the ASX, the Administrators are unable to say whether the ASX would consider granting this waiver.
- The Cheadle Group Proposal also proposes that if SGL is not reinstated to quotation, an offer will be made to Group Claimant Members to redeem (or buy back) their shares at the then prevailing market price.
- The Administrators consider there are risks associated with such an offer – as it constitutes a “selective buy-back” - and cannot proceed without shareholders first passing a special resolution (requiring a 75% majority) in which no vote is cast by the Group Member Claimants holding shares in SGL.

Estimated timing of dividend under Cheadle Group Proposal

- The Administrators estimate that dividends will be paid under the Cheadle Group Proposal within the following time frames:
 - **Priority and Ordinary Creditors:** In the absence of any Creditor challenging the Trustees’ adjudication of their proof of debt, the Administrators estimate that the cash dividends will be paid to Priority and Ordinary Creditors within 6 to 8 weeks after the effectuation of the DOCA/creation of the Creditors’ Trust.
 - **Group Member Claimants:** The Cheadle Group Proposal contemplates that shares will be issued to Group Member Claimants within 60 days after the effectuation of the DOCA. This is conditional on the claims of the Group Member Claimants being finally determined by this date.
- The Administrators in their capacity as Trustees of the Creditors’ Trust will work towards an expedited adjudication of the Group Member Claims. However the claims involve complex issues of fact and law and there is a potential for it to take at least 6-12 months before all claims are finally determined.
- It is intended that the shares will be issued to the Trustees for transfer to the Group Member Claimants when all claims are adjudicated on, if it is not possible to finally adjudicate on those claims within 60 days.

10. Estimated Return to Creditors and Options Available

10. Estimated Return to Creditors and Options Available

Estimated return to Creditors

■ Estimated returns to Priority Employees, Ordinary Creditors and Group Member Claimants (SGL), as well as SGL shareholders (all in a cents in the dollar basis), under a liquidation scenario and the EziBuy Proposal and Cheadle Group Proposals are shown in the following tables.

SHPL Creditors

Cents in the \$		Notes	Liquidation		EziBuy DOCA		Cheadle Group DOCA	
	Type		Low	High	Low	High	Low	High
Priority Employee Creditors	Cash		100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$
Ordinary Creditors	Cash	1	3.6 c/\$	6.5 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$

Note 1: Includes Non-Priority Employee claims

SGL Creditors & Shareholders

Cents in the \$		Notes	Liquidation		EziBuy DOCA		Cheadle Group DOCA	
	Type		Low	High	Low	High	Low	High
Employee and Ordinary Creditors	Cash		100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$
Group Member Claimants	Cash	1	5.2 c/\$	8.8 c/\$	4.0 c/\$	5.0 c/\$	-	-
Group Member Claimants	Shares	1	-	-	7.1 c/\$	23.5 c/\$	4.6 c/\$	7.2 c/\$
Group Member Claimants	Combined		5.2 c/\$	8.8 c/\$	11.1 c/\$	28.5 c/\$	4.6 c/\$	7.2 c/\$
Ordinary shareholders	Shares	2	-	-	7.9 c/\$	26.3 c/\$	32.6 c/\$	51.2 c/\$

Note 1: Assumes admissible claims of \$85m

Note 2: Calculated using amount in aggregate shares, the pre-restructuring share price and number of share to quantify the loss

■ Creditors must note there is always a measure of imprecision associated with the forecasting of returns in an external administration. The estimates are prepared in good faith but must not be construed as an assurance as to the actual return to Creditors.

10. Estimated Return to Creditors and Options Available

Estimated Timing for Return to Each Class of Creditors

- Detailed below is a summary of the estimated timing for the return to each class of creditor for SHPL and SGL.
- The below estimates may change if any party challenges the Liquidators’/Deed Administrators’/Trustees’ adjudication on the claims.

SHPL estimated timing for return to Creditor Classes

Creditor Class	Liquidation	EziBuy DOCA	Cheadle Group DOCA
Priority Creditors	6 - 8 weeks	6 - 8 weeks	6 - 8 weeks
Ordinary Creditors	6 - 8 weeks	6 - 8 weeks	6 - 8 weeks

SGL estimated timing for return to Creditor Classes

Creditor Class	Liquidation	EziBuy DOCA	Cheadle Group DOCA
Priority Creditors	6 - 8 weeks	6 - 8 weeks	6 - 8 weeks
Ordinary Creditors	6 - 8 weeks	6 - 8 weeks	6 - 8 weeks
Group Member Claimants	6 - 12 months	up to 3 years	6 - 12 months

Effect on Employees

- In accordance with Section 444DA of the Act, under the EziBuy Proposal and the Cheadle Group Proposal, eligible employee creditors will be entitled to a priority at least equal to what they would be entitled if the property was applied in accordance with Sections 556, 560 and 561 of the Act.
- Under both DOCA proposals and the Liquidation scenario, eligible employee creditors will receive 100 cents in the dollar within 6 - 8 weeks after either, the execution of the DOCA, the creation of the Creditors’ Trust or the Liquidation of the Company.
- Generally if a Company is placed into Liquidation, effected employees may be eligible to lodge claims under the Federal Government’s Fair Entitlement Guarantee (FEG). Under a DOCA, employees do not have access to FEG. However in this case, employees will receive 100 cents in the dollar within 6 – 8 weeks under both the Liquidation and DOCA scenarios. This distribution will be made by the Liquidators/Deed Administrators/Trustees (as applicable).

Effect on Related Party Claims under DOCA scenarios

- Under both DOCA proposals, entities within the SGL Group are excluded from claiming in the Deed or Creditors’ Trust Funds.
- As detailed above, all SHPL priority and ordinary creditors will receive 100 cents in the dollar under both DOCA scenarios.
- Further SHPL will have surplus funds in both DOCA scenarios, which will be applied as follows:
 - Under the EziBuy Proposal the surplus funds held will be distributed to the Deed fund for SGL.
 - Under the Cheadle Group Proposal surplus funds sufficient to pay any shortfall for SGL priority and ordinary creditors (including statutory interest for ordinary creditors), will be distributed to the Deed Fund of SGL and any funds remaining will be retained by SHPL for working capital requirements.

Effect on Existing Shareholders

- Existing shareholders can refer to **Appendix 15** for details on the calculation of the estimated aggregate amount of shares in EziBuy under the EziBuy Proposal and SGL under the Cheadle Group Proposal.



10. Estimated Return to Creditors and Options Available

What creditors can decide at the meeting

- At the Second Meeting, SHPL and SGL creditors, including Group Member Claimants (SGL), will separately resolve that the:
 - Companies execute a Deed of company arrangement and, if so, which DOCA proposal; or
 - Companies be placed into Liquidation; or
 - administration of the Companies is brought to an end.
- Creditors could also resolve for the Second Meeting be adjourned for a period up to 45 business days.

Explanation of options available to creditors

- The Administrators have an obligation to make a recommendation to creditors on which alternative is in the best interests of creditors, including Group Member Claimants (SGL).
- The Administrators make the following comments in respect to each option:

Deed of company arrangement

- As detailed in Section 9, the Administrators have received two DOCA proposals and they both provide for the continuation of SSAU as a going concern.
- The DOCA proposals are interdependent, that is, for either proposal to proceed creditors of both SHPL and SGL must resolve to execute one particular proposal, either the EziBuy Proposal or the Cheadle Group Proposal.
- If creditors resolve the Companies execute one of the DOCA proposals, upon execution the Companies will be subject to a Deed of Company Arrangement and the Administrators will become the Deed Administrators.
- The Cheadle Group Proposal contemplates the use of a Creditors' Trust. Reference is made to Section 9 and **Appendices 12 and 13** in this regard.

Bringing the administration to an end

- It is possible that creditors may consider ending the Administration and returning the Companies to the respective existing Directors. This is not a commercial proposition given the financial position of the Companies and the professional assistance it requires in restructuring its affairs.
- If creditors resolve the administrations end, the Companies' existing Directors would resume control of the Companies and the moratorium under the Voluntary Administration will cease. Creditors will therefore not be prevented from initiating legal proceedings for the recovery of their debts or petitioning to the Court to have the Companies wound up.
- Should creditors resolve that the Administrations be terminated, the Companies will be placed in a similar position to that existing prior to our appointment as Administrators.

Winding up the Company

- At the Second Meeting, creditors may resolve that the Companies be wound up. Should they do so, the Companies will be placed into liquidation and the Administrators will become the appointed Liquidators (unless creditors resolve otherwise). The Liquidators are required to realise and distribute the assets in accordance with Section 556 of the Act and will also be required to complete a thorough investigation into the Companies' past dealings and affairs, and the past actions of the Directors and former Directors.
- The effects of the liquidation of the Companies include:
 - The moratorium available under the Voluntary Administration process will cease.
 - The Liquidators will be empowered to recover potential voidable transactions, although as outlined in Section 6 of this report, no recoveries have been identified.
 - The Liquidators will conduct further investigations into the affairs of the Companies and its officers (and former officers) and may be required to lodge a report with the ASIC in respect of the same.
- Placing SGL and SHPL into liquidation, in our view, will have a material effect on the ongoing trading of SSAU, and will be detrimental to the sale of SSAU as a going concern. The likely return to SHPL under a liquidation is detailed above and in **Appendix 15**.



10. Estimated Return to Creditors and Options Available

Administrators' opinions on the options available to creditors

- In accordance with the requirements of Section 439A(4)(b) of the Corporations Act, the Administrators must provide an opinion on each of the above options, and whether the option is in the creditors' interests.

1. Execution of a deed of company arrangement

- Two DOCA proposals have been submitted, details of the proposals, key features and risks are detailed in Section 9 and **Appendices 9 to 13** (inclusive).
- The Administrators have considered both proposals and based on the available information, **the Administrators consider it would be in the interests of creditors of SHPL and SGL for the Companies to execute a DOCA as proposed by EziBuy.**
- This recommendation is made having regard to the following matters:
 - The EziBuy and Cheadle Group transaction will result in a continuation of the SurfStitch Australia business. However, the EziBuy transaction provides for much larger scale than SurfStitch Australia on a standalone basis.
 - SGL and SHPL ordinary creditors will receive 100 cents in the dollar under both the EziBuy Proposal and the Cheadle Group Proposal. Under a Liquidation scenario SHPL ordinary creditors will receive between 3.6 and 6.5 cents in the dollar.
 - SGL Group Member Claimants are projected to receive a higher return under the EziBuy Proposal than the Liquidation and the Cheadle Group Proposal.
 - In comparing the EziBuy Proposal and the Cheadle Group Proposal, the EziBuy Proposal makes available for distribution a cash component from the surplus funds held in SHPL/SGL. Under the Cheadle Group Proposal Group Member Claimants will only receive shares in SGL, as the surplus cash in SHPL is to be retained by SSAU for working capital purposes.

2. The Administration comes to an end

- If the creditors vote for this alternative, control of the Companies would revert to the respective Directors of SHPL and SGL following the forthcoming Second Meeting.
- The Class Actions initiated prior to the Administrators appointment will no longer be subject to the moratorium available under the Voluntary Administration and would be able to progress their claims against SGL.
- Having in mind the quantum of potential claims under the Class Actions and the need for the Companies affairs to be restructured, **the Administrators do not consider that it would be in the interests of creditors' of SHPL or SGL for the administration to end.**

3. The Company is wound up

- If creditors vote for this alternative, or creditors do not vote that the Companies execute one of the DOCA proposals, the Companies will be placed into Liquidation.
- Under a Liquidation scenario SurfStitch Australia will either be sold as a going concern or an orderly wind down of its operations will occur.
- The likely return to SHPL under this scenario is estimated in **Appendix 15.**
- The Administrators do not consider this options is in the best interest of ordinary creditors of SHPL as it will result in a return between 3.6 and 6.5 cents the dollar.
- Although SGL's Group Member Claimants are projected to received between 5.2 and 8.8 cents in the dollar in a Liquidation scenario (assuming total admissible claims are \$85m), the EziBuy Proposal provides significant upside to Group Member Claimants in the high scenario detailed above.
- As detailed in Section 6, the Administrators have not identified any potential recoveries under Part 5.7B of the Act.
- Having in mind the return to all creditors in SHPL and SGL, **the Administrators do not consider that it would be in the best interest of creditors of SHPL or SGL for the Companies to be wound up.**

10. Estimated Return to Creditors and Options Available

Administrators' Recommendation

- It is our opinion that it would be in creditors interests for both the Companies to execute a DOCA based on the EziBuy Proposal.
- It is not in creditors' interests to wind up the Companies or to bring the Administration to an end.
- As detailed in this report, the EziBuy Proposal is projected to result in an equal 100 cents in the dollar return for priority and ordinary unsecured Creditors, and a superior return for Group Member Claimants and Shareholders, than if the Company was liquidated.

Remuneration

- Creditors should refer to the Remuneration Reports in **Appendix 18** for details of proposed remuneration in SHPL and SGL.

Dated 16 March 2018



Joseph Ronald Hansell
Joint and Several Administrator

Appendix 1 – Glossary and Terms of Reference

Glossary and Terms of Reference

Item	Definition
1H FY	First Half of a Financial Year
Administrators	John Park, Joseph Ronald Hansell and Quentin James Holde
ALLPAAP	All present and after-acquired property
Appointment date	24 August 2018
ARITA	Australian Restructuring Insolvency & Turnaround Association
ASIC	Australian Securities Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUD	Australian Dollars
CEO	Chief Executive Officer
Cheadle Group	Abigail Cheadle, Justin Hillberg, Tony Nash, Leonie Henzell and Jon Brett
Cheadle Group Proposal	As per Appendix 10. Proposal put forward by the Cheadle Group
Class Actions	<i>TW McConnell Pty Ltd ACN 000 217 890 as trustee for the McConnell Superannuation Fund v SurfStitch Group Limited (Administrators Appointed) and Justin Peter Cameron</i> (Supreme Court of New South Wales proceedings number 2017/193375); and <i>Nakali Pty Limited ACN 062 473 830 v SurfStitch Group Limited ACN 602 288 004 (Administrators Appointed)</i> (Supreme Court of New South Wales proceedings number 2017/347082) (previously described as <i>Warwick Blain Cook and Leonee Rose Cook as trustees of Corifin P/L Super Fund A/C v SurfStitch Group Limited and commenced in the Supreme Court of Queensland</i>)
Companies	SurfStitch Group Limited and SurfStitch Holdings Pty Limited
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement

Item	Definition
DoCG	Deed of Cross Guarantee
EBITDA	Earning before interest, tax, depreciation and amortisation
ERV	Estimated Realisable Value
ESOP	Estimated State of Position/Estimated Return to Creditors
EziBuy	Ezibuy Holdings Ltd
EziBuy Proposal	As per Appendix 9. Deed of Company Arrangement proposed by Ezybuy Holdings Ltd
FY	Financial Year
GBP	Great British Pound
Group Member Claimant	Shareholders and former shareholders that held and retained shares in SurfStitch Group Limited (ASX: SRF) at periods and dates specified in Section 8.
GST	Goods and Services Tax, as applicable in Australia
HVLV	High Value Low Volume Tax, new law in relation to applicability of GST on low volume imported goods
Internet Fusion	Internet Fusion Limited
IP	Intellectual Property
IPO	Initial Public Offering
Link POD & Link Proxy	Informal Proof of Debt and Appointment of Proxy Form for the SGL Second Meeting of Creditors from Link Insolvency Solutions
m	million
Metcentral	Metcentral Limited
MSW	Magicseaweed, Magic Seaweed Limited
NZ	New Zealand

Glossary and Terms of Reference

Item	Definition
POD	Informal Proof of Debt
PPSR	Personal Property Securities Register
Proxy	Appointment of Proxy Form
RATA	Report as to Affairs
SDSL	Surfdomeshop Limited
SDUK	Surfdome, a UK based eCommerce business operated by Surfdome Shop Limited
Second Meeting	Second Meeting of Creditors for SurfStitch Group Limited and SurfStitch Holdings Pty Limited, which will be held on Wednesday, 4 April 2018, at The Ionic Room, SMC Conference & Function Centre, 66 Goulburn Street, Sydney, NSW 2000, at 1:00 PM AEST
SGL	SurfStitch Group Limited
SHI	Surf Hardware International
SHPL	Surfstitch Holding Pty Limited
SSAU or SurfStitch Australia	Surfstitch Pty Ltd
SSEU	Surfstitch (Europe) Pty Limited
SSUS	SurfStitch USA Inc
STAB	STAB Magazine, an online surf publishing and content business.
Subordinate Claimant	A creditor who has: <ul style="list-style-type: none"> • A claim for a debt owed by SGL in Creditor's capacity as a member (shareholder) of SGL (whether by dividends, profits or otherwise); or • Any other claim that arises from buying, holding, selling or otherwise dealing in shares of SGL (together, Subordinate Claimants).

Item	Definition
Surfline	Surfline Wavetrack Limited
Swell	North American based eCommerce business, operated by SurfStitch USA Inc
TCI Group	Three Crowns Investments Pty Ltd, 3 Crowns Technologies Pty Ltd (formerly Coastalcoms Pty Ltd) and Coastalwatch Pty Ltd
TCI Group Proceedings	4422/16 Three Crowns Investments Pty Ltd -V- Surfstitch Group Limited (District Court of QLD) 1430/17 Three Crowns Investments Pty Ltd -V- Surfstitch Group Limited (District Court of QLD) 3041/16 Three Crowns Investments Pty Ltd -V- Surfstitch Group Limited (District Court of QLD) 8056/16 Coastalcoms Pty Ltd -V- Surfstitch Holdings Pty Limited (Supreme Court of QLD) 1431/17 Three Crowns Investments Pty Ltd -V- Surfstitch Group Limited (Supreme Court of QLD)
the Act	Corporations Act 2001 (Cth)
the SGL Group	Surfstitch Group Limited (Administrators Appointed) Surfstitch Holdings Pty Limited (Administrators Appointed) Surfstitch Pty Limited Surfstitch USA Inc Surfstitch Europe Pty Limited Magicseaweed Limited Metcentral Limited Rollingyouth Pty Ltd Formerly Surfdome Shop Limited (prior to the sale)
USD	US Dollars
Westpac	Westpac Banking Corporation



Glossary and Terms of Reference

Terms of Reference

- This report has been prepared for the creditors of Companies to assist them in evaluating their position as creditors and in deciding on the Company's future. None of the Administrators, FTI Consulting and its staff shall assume any responsibility to any third party to which this report is disclosed or otherwise made available.
- This report is based on information obtained from the Companies' records, the directors and management of the Company and from our own enquiries. While we have no reason to doubt the veracity of information contained in this report, unless otherwise stated we have proceeded on the basis that the information provided and representations made to us are materially accurate, complete and reliable. We have not carried out anything in the nature of an audit, review or compilation.
- This report may contain prospective financial information, including estimated outcomes for creditors, and other forward looking information. As events and circumstances frequently do not occur as expected, there may be material differences between estimated and actual results. We take no responsibility for the achievement of any projected outcomes or events.
- We reserve the right to alter any conclusions reached on the basis of any changed or additional information which may become available to us between the date of this report and the forthcoming meeting of creditors.
- Creditors should seek their own advice if they are unsure how any matter in this report affects them.

Appendix 2 - DIRRI

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 (incl. 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 a n 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.



DIRRI

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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.



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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 SurfStitch 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 Oude

Joseph Ronald Hamell

NOTE:

1. If circumstances change, or new information is identified, we are required under the Corporations Act 2001 and the AITA 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 Ode	Managing Director	FTI Consulting
Joseph Harwell	Senior Director	FTI Consulting
Simon Skelton	Senior Director	FTI Consulting
Stuart Carson	Senior Director	FTI Consulting
Samuel Scott Weiss	Director, Chairman	SurfStitch Group Limited / SurfStitch Holdings Pty Limited
Michael Seaman	Director, CEO	SurfStitch Group Limited
Harry Hodge	Director	SurfStitch Group Limited
Abigail Chaudhri	Company Secretary	SurfStitch Group Limited
Stephanie Bellon	COO	SurfStitch Group Limited
Nigel Phillips	Partner	King and Wood Mallesons
Tim Attenberg	Senior Associate	King and Wood Mallesons
Rob Warwick		

Details of Meetings and Teleconferences

Date	Attendance	FTI Consulting Attendees	External Attendees	Agenda
19 Jun-17	Meeting (Q110)	John Park Joseph Harwell Simon Skelton	Mike Seaman Nigel Phillips	General background briefing
19 Jun-17	Teleconference	John Park Joseph Harwell Simon Skelton	Tim Attenberg	General background briefing

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Date	Attendance	FTI Consulting Attendees	External Attendees	Agenda
23 Jun-17	Teleconference	John Park Joseph Harwell Simon Skelton Quentin Ode Joseph Harwell	Stephanie Bellon Mike Seaman Tim Attenberg Tim Kivirikko	Discussions concerning options available to the Companies and preliminary assessment of solvency
29 Jun-17	Teleconference	Quentin Ode Joseph Harwell Simon Skelton	Tim Kivirikko	Discussions concerning options available to the Companies
11 Jul-17	Meeting (650W)	John Park Joseph Harwell Simon Skelton	Mike Seaman	Assess update on trading performance and general affairs of the Group
24 Jul-17	Meeting (650W)	John Park Quentin Ode Joseph Harwell Simon Skelton	Stephanie Bellon Mike Seaman Samuel Weiss Rob Warwick	Discussions concerning options available to the Companies and the process and consequences of a formal insolvency appointment
25 Jul-17	Meeting (650W)	Quentin Ode John Park (by telephone)	Abigail Chaudhri Stephanie Bellon Harry Hodge Mike Seaman Samuel Weiss	Discussions concerning options available to the Companies
15 Aug-17	Meeting (Q110)	John Park Joseph Harwell	Abigail Chaudhri Stephanie Bellon Harry Hodge Mike Seaman Samuel Weiss	Discussions concerning forecast, Companies and Group cash flows and general position of the Group
17 Aug-17	Teleconference	Joseph Harwell Simon Skelton	Mike Seaman	Discussion concerning forecast cash flows of the Group
30 Aug-17	Teleconference	John Park Joseph Harwell	Mike Seaman Stephanie Bellon 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
23 Aug-17	Teleconference	John Park Joseph Harwell Simon Skelton	Abigail Chaudhri Stephanie Bellon Harry Hodge Mike Seaman Samuel Weiss Tim Attenberg	Discussions concerning discussions of future options, options available to the Companies and the process and the consequences of a formal insolvency appointment

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Date	Attendance	FJI Consulting Attendees	External Attendees	Agenda
22-Aug-17	Meeting (65W)	Quentin O'Leary Simon Charlton Stuart Carron Joseph Maxwell Svenja Skelton Stuart Carron	Stephane Babin Mike Stoddard Stuart Carron Stephane Babin Mike Stoddard	Situations concerning options available to the Companies, and the process of the development of a formal insolvency appointment. Discussion concerning options available to the Companies, and the process and the completion of a formal insolvency appointment.
23-Aug-17	Meeting (66W)			



Appendix 3 – Additional Company information

Additional Company information

Former Directors and Officers

SGL

Officer Name	Position	Appointment Date	Cessation Date
Pedersen, Lex Ward	Director	13 October 2014	31 December 2016
Goddard, Stephen Thomas	Director	7 November 2014	31 December 2016
Stone, Justin Paul Towells	Director	16 December 2014	31 December 2016
Huxley, Jane Margaret Mary	Director	11 June 2015	31 December 2016
McDonald, Howard John	Director	13 October 2014	1 August 2016
Cameron, Justin Peter	Director	13 October 2014	9 March 2016
Cameron, Justin Peter	Secretary	13 October 2014	31 October 2014
Birner, Karen Dawn	Secretary	31 October 2014	1 November 2016

SHPL

Officer Name	Position	Appointment Date	Cessation Date
McDonald, Howard John	Director	5 November 2014	1 August 2016
Cameron, Justin Peter	Director	6 August 2014	9 March 2016
Cameron, Justin Peter	Secretary	6 August 2014	31 October 2014
Birner, Karen Dawn	Secretary	31 October 2014	11 November 2016

Appendix 4 – Directors' ASX Announcement

Directors' ASX Announcement



ASX ANNOUNCEMENT

24 August 2017

Appointment of Administrators

For over twelve months, the businesses of SurfStitch Group Limited (ASX:SRF) have been faced with several significant, external challenges including two class actions, the protracted Coastalwatch litigation and an ASIC investigation. These challenges each bring high levels of uncertainty and material costs that are entirely outside of the control of the Group operational businesses. These have had, and will continue to have, an adverse impact on the Companies' cash flow position.

In light of the Board's continuous assessment of the Group's financial position and as part of its ongoing efforts to optimise business operations and preserve stakeholder value, an administrator has today been appointed to the Group's listed entity and its holding company, SurfStitch Group Limited and SurfStitch Holdings Pty Limited respectively.

The operating businesses, comprising:

- SurfStitch (Australian based eCommerce operation);
- SurfDome (UK based eCommerce operation);
- SWELL (North American eCommerce operation);
- Magic Seaweed; and
- STAB,

all remain in operation and are not the subject of administration. These businesses will continue trading as usual and will benefit from the removal of the non-operational issues that have consumed so much management time and resources to date.

Chairman, Sam Weiss said:

"Today's decision reflects the exceptional circumstances that have impacted the SurfStitch Group for well over a year. The appointment of administrators to the listed and holding entities will allow our operating companies to focus solely on trade and the provision of a rewarding experience for our customers going into the critical December peak period.

The Board is committed to build on the strong progress management has delivered through FY17, to optimise results for the operating companies and to preserve value for all stakeholders. The appointment of administrators, at this time, is necessary as we seek to put the business on a sustainable footing for the future and to remove uncertainties at the listed and holding company level, without impacting on business as usual at the subsidiary operating level.

The Board and management will assist the administrators as required to investigate and pursue a restructure and recapitalisation of the operating companies and intends to explore the potential for a Deed of Company Arrangement."

ENDS

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Appendix 5 – SGL Management accounts

SGL Management Accounts

SGL - Management Accounts - Comparative Historical Performance

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
Sales Revenue	-	-	-	-
Gross Profit	-	-	-	-
Employment Expenses	(1,735,118)	(189,816)	(132,860)	(24,433)
Occupany Expenses	-	(925,428)	(9,424)	(8,155)
Bad and Doubtful Debt Expense	-	(155,909,698)	(16,587,617)	-
Other Expenses	(272,441)	(2,249,136)	(300,699)	305,869
Total Expenses	(2,007,558)	(159,274,078)	(17,030,599)	273,281
EBITDA	(2,007,558)	(159,274,078)	(17,030,599)	273,281
Other Income	36,292	5,851,569	2,206,621	-
Interest Expense	-	-	0	1
Depreciation & Amortisation Expense	(206)	4,981	(6,252)	(6,252)
Impairment Expenses	(23,100,000)	(92,061,330)	(17,557,000)	-
Other Expense	819,157	249,021	794,920	-
Net Profit/(Loss)	(24,252,315)	(245,229,837)	(31,592,311)	267,030

SGL - Management Accounts - Comparative Historical Financial Position

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
Current assets				
Cash and cash equivalents	30,487,838	9,373,223	282,824	3,424,797
Intercompany receivables	64,122,975	10,244,014	905,592	671,405
Provision for bad and doubtful debts	-	(155,909,698)	-	-
Other current assets	53,302	273,279	1,529,827	1,933,785
Total current assets	94,664,115	(136,019,182)	2,718,244	6,029,987
Non-current assets				
Fixed assets	-	319,752	145,899	81,871
Intercompany loan	-	145,668,811	172,497,315	168,047,315
Provision for bad and doubtful debts	-	-	(172,497,315)	(172,497,315)
Investments in subsidiaries	130,614,129	37,650,000	20,093,000	20,093,000
Other assets	1,622,407	2,952,624	1,742,874	1,742,874
Total non-current assets	132,236,536	186,591,187	21,981,774	17,467,746
Total Assets	226,900,650	50,572,005	24,700,017	23,497,732
Current liabilities				
Accounts payable	892,839	616,144	1,064,582	294,570
Intercompany loan	-	3,127	4,049	12,923
Payroll	10,111	15,493	32,390	17,256
Sundry	(15,050)	262,220	229,786	100,147
Total current liabilities	887,899	896,984	1,330,807	424,896
Non-current liabilities				
	-	879,651	591	1,188
Total Liabilities	887,899	1,776,635	1,331,398	426,085
Net Assets	226,012,751	48,795,370	23,368,619	23,071,648

Appendix 6 – SHPL Management Accounts

SHPL Management Accounts

SHPL - Management Accounts - Comparative Historical Performance

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
Sales Revenue	-	-	-	-
Gross Profit	-	-	-	-
Employment Expenses	828,846	(5,699,252)	(1,308,684)	(208,552)
Occupancy Expenses	-	-	-	1
Other Expenses	(1,614,481)	(2,671,921)	(872,667)	(46,941)
Total Expenses	(785,635)	(8,371,174)	(2,181,351)	(255,492)
EBITDA	(785,635)	(8,371,174)	(2,181,351)	(255,492)
Other Income	466,961	908,669	1,048,923	-
Interest Expense	(190)	(5,857,341)	(2,261,555)	-
Depreciation & Amortisation Expense	-	(22,760)	(1,145)	(1,145)
Other Expense	2,072,362	(1,305,348)	542,044	457,217
Net Profit/(Loss)	1,753,499	(14,647,954)	(2,853,084)	200,580

SHPL - Management Accounts - Comparative Historical Financial Position

	FY15 (\$)	FY16 (\$)	FY17 (\$)	Aug 2017 (\$)
Current assets				
Cash and cash equivalents	31,479	364,849	6,081,014	172,095
Intercompany receivables	35,220,288	119,466	376,541	350,450
Provision for bad and doubtful debts	-	-	-	-
Other current assets	33,460	158,332	126,941	77,789
Total current assets	35,285,227	642,648	6,584,495	600,334
Non-current assets				
Fixed assets	1,160	41,312	95,550	99,403
Intercompany loan	-	69,560,696	79,088,712	79,235,603
Provision for bad and doubtful debts	-	-	-	-
Investments in subsidiaries	115,160,357	154,454,003	116,996,848	116,996,848
Other assets	524,691	478,667	294,655	294,655
Total non-current assets	115,686,208	224,534,678	196,475,766	196,626,510
Total Assets	150,971,435	225,177,326	203,060,261	197,226,844
Current liabilities				
Accounts payable	75,436	44,134	150,890	58,510
Intercompany loan	63,039,570	10,465,374	569,778	332,950
Payroll	103,347	126,450	350,780	302,058
Sundry	411,962	1,501,809	273,884	555,409
Total current liabilities	63,630,315	12,137,768	1,345,332	1,248,927
Non-current liabilities				
	-	145,668,811	172,519,751	168,110,329
Total Liabilities	63,630,315	157,806,579	173,865,083	169,359,256
Net Assets	87,341,120	67,370,746	29,195,178	27,867,588

Appendix 7 – Offences, Recoverable Transactions and Insolvent Trading

Offences, Recoverable Transactions and Insolvent Trading

Creditor Information Sheet Offences, Recoverable Transactions and Insolvent Trading



Offences

A summary of offences under the Corporations Act that may be identified by the administrator:

180	Failure by company officers to exercise a reasonable degree of care and diligence in the exercise of their powers and the discharge of their duties.
181	Failure to act in good faith.
182	Making improper use of their position as an officer or employee, to gain, directly or indirectly, an advantage.
183	Making improper use of information acquired by virtue of the officer's position.
184	Reckless or intentional dishonesty in failing to exercise duties in good faith for a proper purpose. Use of position or information dishonestly to gain advantage or cause detriment. This can be a criminal offence.
198G	Performing or exercising a function or power as an officer while a company is under administration.
206A	Contravening a court order against taking part in the management of a corporation.
206A, B	Taking part in the management of corporation while being an insolvent, for example, while bankrupt.
206A, B	Acting as a director or promoter or taking part in the management of a company within five years after conviction or imprisonment for various offences.
209(3)	Dishonest failure to observe requirements on making loans to directors or related companies.
254T	Paying dividends except out of profits.
286	Failure to keep proper accounting records.
312	Obstruction of an auditor.
314-7	Failure to comply with requirements for the preparation of financial statements.
437D(5)	Unauthorised dealing with company's property during administration.
438B(4)	Failure by directors to assist administrator, deliver records and provide information.
438C(5)	Failure to deliver up books and records to the administrator.
590	Failure to disclose property, concealed or removed property, concealed a debt due to the company, altered books of the company, fraudulently obtained credit on behalf of the company, material omission from Report as to Affairs or false representation to creditors.

Recoverable Transactions

Preferences

A preference is a transaction, such as a payment by the company to a creditor, in which the creditor receiving the payment is preferred over the general body of creditors. The relevant period for the payment commences six months before the commencement of the liquidation. The company must have been insolvent at the time of the transaction, or become insolvent because of the transaction.

Where a creditor receives a preference, the payment is voidable as against a liquidator and is liable to be paid back to the liquidator subject to the creditor being able to successfully maintain any of the defences available to the creditor under the Corporations Act.

Uncommercial Transaction

An uncommercial transaction is one that it may be expected that a reasonable person in the company's circumstances would not have entered into, having regard to:

- the benefit or detriment to the company;
- the respective benefits to other parties; and,
- any other relevant matter.



To be voidable, an uncommercial transaction must have occurred during the two years before the liquidation. However, if a related entity is a party to the transaction, the period is four years and if the intention of the transaction is to defeat creditors, the period is ten years.

The company must have been insolvent at the time of the transaction, or become insolvent because of the transaction.

Unfair Loan

A loan is unfair if and only if the interest was extortionate when the loan was made or has since become extortionate. There is no time limit on unfair loans – they only must be entered into before the winding up began.

Arrangements to avoid employee entitlements

If an employee suffers loss because a person (including a director) enters into an arrangement or transaction to avoid the payment of employee entitlements, the liquidator or the employee may seek to recover compensation from that person. It will only be necessary to satisfy the court that there was a breach on the balance of probabilities. There is no time limit on when the transaction occurred.

Unreasonable payments to directors

Liquidators have the power to reclaim 'unreasonable payments' made to directors by companies prior to liquidation. The provision relates to payments made to or on behalf of a director or close associate of a director. The transaction must have been unreasonable, and have been entered into during the 4 years leading up to a company's liquidation, regardless of its solvency at the time the transaction occurred.

Voidable charges

Certain charges over company property are voidable by a liquidator:

- circulating security interest created within six months of the liquidation, unless it secures a subsequent advance;
- unregistered security interests;
- security interests in favour of related parties who attempt to enforce the security within six months of its creation.

Insolvent trading

In the following circumstances, directors may be personally liable for insolvent trading by the company:

- a person is a director at the time a company incurs a debt;
- the company is insolvent at the time of incurring the debt or becomes insolvent because of incurring the debt;
- at the time the debt was incurred, there were reasonable grounds to suspect that the company was insolvent;
- the director was aware such grounds for suspicion existed; and
- a reasonable person in a like position would have been so aware.

The law provides that the liquidator, and in certain circumstances the creditor who suffered the loss, may recover from the director, an amount equal to the loss or damage suffered. Similar provisions exist to pursue holding companies for debts incurred by their subsidiaries.

A defence is available under the law where the director can establish:

- there were reasonable grounds to expect that the company was solvent and they did so expect;
- they did not take part in management for illness or some other good reason; or
- they took all reasonable steps to prevent the company incurring the debt.

The proceeds of any recovery for insolvent trading by a liquidator are available for distribution to the unsecured creditors before the secured creditors.

Important note: This information sheet contains 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. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances.

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Offences, Recoverable Transactions and Insolvent Trading

Information sheet: Approving remuneration of an external administrator



If you are a creditor in a liquidation, voluntary administration or deed of company arrangement you may be asked to approve the external administrator's remuneration. An external administrator can be a liquidator, voluntary administrator or deed administrator. The process for approving the remuneration for each of these is the same.

This information sheet gives general information to help you understand the process of approving an external administrator's remuneration and your rights in this process. The following topics are covered in this information sheet:

- About external administrations
- External administrator's remuneration and costs
- Calculating remuneration
- Information you will receive
- Approving remuneration
- Who may approve remuneration
- Deciding if remuneration is reasonable
- What can you do if you decide the remuneration is unreasonable?
- Reimbursement of out of pocket costs
- Queries and complaints
- More information.

About external administrations

If a company goes into liquidation, voluntary administration or enters into a deed of company arrangement, an independent person is appointed to oversee the administration. They are called an external administrator and include a liquidator, voluntary administrator and deed administrator, depending on the type of administration involved. In this information sheet they are simply referred to as an external administrator.

The duties of an external administrator are specified in legislation and they must adhere to certain standards while conducting the administration.

All external administrators are required by law to undertake certain tasks which may not benefit creditors directly (e.g. investigating whether any offences have been committed and reporting to the Australian Securities and Investments Commission (ASIC)).

External administrator's remuneration and costs

External administrators are entitled to be paid for the necessary work they properly perform in the administration.

An external administrator is entitled:

- to be paid reasonable remuneration, for the work they perform, once this remuneration has been approved,
- to be paid for internal disbursements they incur in performing their role (these costs do need approval), and
- to be reimbursed for out-of-pocket costs incurred in performing their role (these costs do not need approval).

Common internal disbursements are stationery, photocopying and telephone costs.

Commonly reimbursed out-of-pocket costs include:

- legal fees
- a valuer's, real administration agent's and auctioneer's fees
- postage costs
- retrieval costs for recovering the company's computer records, and
- storage costs for the company's books and records.

Creditors have a direct interest in the amount of an external administrator's remuneration and costs, as these will generally be paid from the administration before any payments are made to creditors.

Remuneration and internal disbursements must be approved in accordance with the Corporations Act and Insolvency Practice Rules (Corporations) before it can be paid.

If there is a shortfall between the external administrator's remuneration and the assets available from the administration, in certain circumstances the external administrator may arrange for a third party to pay the shortfall. As a creditor, you will be provided details of any such arrangement.

If there are not enough assets to pay the external administrator's remuneration and costs, and there is no third party payment arrangement, the external administrator remains unpaid.

Calculating remuneration

An external administrator may calculate their remuneration using one (or a combination) of a number of methods, such as:

- on the basis of time spent working on the administration, according to hourly rates
- a quoted fixed fee, based on an estimate of the costs
- a percentage (usually of asset realisations), or
- a contingent basis on a particular outcome being achieved.

Charging on the basis of time spent is the most common method used. External administrators have a set of hourly rates that they will seek to charge. These rates are set to reflect the seniority, skills and experience of staff and, where applicable, the complexity and risks of the bankruptcy. They cover staff costs and overheads.

If remuneration is being charged on a time basis, the external administrator must keep time sheets noting the number of hours spent on the tasks performed.

Creditors have a right to question the external administrator about the remuneration and the rates to be charged. They also have a right to question the external administrator about the fee calculation method used and how the calculation was made. The external administrator must justify why the chosen fee calculation method is appropriate for the administration.

Information you will receive

There are different types of remuneration reports that you may receive during the course of an external administration. The following table details the reports and when you might receive them.

Appendix 8 – Solvency

Solvency

General Information and Considerations

Date of Insolvency

- In order to ascertain if there were any insolvent transactions entered into by a company, it is first necessary to determine the date a company became insolvent.
- Proving the date on which a company became insolvent is an essential element of recovery actions with respect to unfair preferences, uncommercial transactions and insolvent trading.
- Recovery actions require the liquidator to prove that a company was insolvent at the time of the transaction, or in the case of an insolvent trading action, when the debt was incurred.

What is Insolvency?

- Section 95A of the Act provides that:
 - a company is solvent if it is able to pay all its debts as and when they become due and payable; and
 - a company that is not solvent is insolvent.
- Whether a company is able to meet its debts as they become due relies on is essentially a “cash flow” test rather than a “balance sheet” test (although the company’s balance sheet position is still relevant).
- Further, an inquiry into whether a company is solvent at a particular time is generally assisted by determining whether the company exhibits any of the “usual indicia of insolvency.” The usual indicia of insolvency are consistent with a company being insolvent. However, it is important to note that a company may be insolvent without displaying all the usual indicia (and vice versa).
- Consideration of the entire financial position of a company is required to establish if it is insolvent at a particular date. This includes factors such as the value of the company’s assets relative to its liabilities and the nature of these assets and liabilities. Also, the extent to which cash is expected to be generated from future trading activities, or available from alternative sources is relevant to considering a company’s solvency position.

General and Commercial Considerations

- Proving insolvency is often a complex exercise and usually involves considerable time and expense in thoroughly investigating and determining a position and the quantum of any claims. Legal advice on the merits of claims is generally required.
- Typically, insolvent trading claims are defended and directors may seek to rely on the statutory defences available to them.
- Legal proceedings are often necessary for liquidators to pursue insolvent trading claims. This adds to the time and costs involved in pursuing claims. There is also inherent uncertainty in the probability of success with any litigation. As a result, commercial considerations are relevant, including whether the amount of the claim is large enough to pursue on a cost and risk/benefit basis.
- The capacity of a party to pay any successful claim to a liquidator is also a relevant consideration in determining whether or not pursuing an action is likely to be in the interest of creditors.
- Liquidators may not have funds to pursue actions. At other times, the liquidator may view the risks/benefits of pursuing an action are not in the interest of creditors (for example, in cases where pursuing an action would use up the available cash/assets when otherwise a dividend to creditors could be paid). In these circumstances, it is possible that a creditor or a litigation funder may wish to fund an action to pursue a claim. This typically occurs only when there is a very strong case and high prospect of success.

Solvency

Our approach to solvency

- We assessed the solvency of the Companies by examining whether the Companies:
 - were solvent under the cash flow test of insolvency; and
 - exhibited any of the usual indicia of solvency.
- When doing so, we considered the position of the Companies on a consolidated basis. This reflects the commercial reality of the relationship between SHPL and SGL. That is, the ability of SHPL to request funding from SGL, through the intercompany loan, in order to assist SHPL to pay its creditors as and when they fell due.

Cash Flow Test

- The cash flow test requires a consideration of the following at a point in time (often at month-end) or a series of points in time:
 - the cash resources available to a company; and
 - the debts that are due and payable by the company.
- As shown in the below table, the Companies surplus cash resources over the 12 months prior to the Administrators' appointment.

- In preparing the table:
 - Cash resources were limited to the cash balances available to SGL and SHPL from their transaction bank accounts only. The cash resources exclude the amount of \$1.2million held by Westpac in a blocked term deposit - as security for the Companies' obligations to Westpac - as well as all other current assets.
 - Due and payable liabilities comprise accounts payable, accrued expenses, payroll liabilities and taxation liabilities.
 - We excluded the following balance sheet items from the due and payable liabilities:
 - provisions for certain operating and payroll liabilities; and
 - any intercompany payables between members of the Group.

Combined Cash Flow Test

Item	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Cash Resources	5,058,711	3,436,408	3,126,587	12,255,761	11,448,713	8,154,864	5,029,803	4,158,449	1,790,434	6,363,838	5,560,638	3,596,892
Due and Payable Liabilities	1,669,824	1,853,546	2,040,414	1,405,817	1,618,102	1,148,444	1,366,857	1,547,479	1,303,864	1,888,476	2,245,942	1,107,645
Surplus / (Deficiency)	3,388,886	1,582,862	1,086,173	10,849,944	9,830,611	7,006,420	3,662,946	2,610,970	486,569	4,475,362	3,314,696	2,489,247

Solvency

Usual Indicia of Insolvency

- The following table shows the usual indicia of insolvency and our opinion on whether the Companies exhibited each of those indicia. As shown in the table, we consider that the Companies did not exhibit any of the usual indicia of insolvency. This is consistent with our opinion that the Companies were solvent under the cash flow test of solvency.
- Further analysis on usual indicia #2 (Liquidity ratios below 1) appears immediately after the table.

No	Indicia of Insolvency	SGL	SHPL
1	Continued loss making activity	N/A	N/A
2	Liquidity ratios below 1	✘	✘
3	An excess of liabilities over assets	✘	✘
4	Outstanding creditors of more than 60 days	✘	✘
5	Dishonoured cheques	N/A	N/A
6	Issuing of post-dated cheques and/or holding of cheques until cash becomes available	N/A	N/A
7	Suppliers placing the company on cash on delivery or otherwise demanding special payments before resuming supply including payments by instalments	✘	✘
8	Payments to creditors of rounded sums which are not reconcilable to specific invoices	✘	✘
9	Overdue Commonwealth and state taxes including group and payroll tax, GST and superannuation liabilities	✘	✘
10	Unsecured creditors being unpaid outside trading terms	✘	✘

Legend

- ✓ Indicia of insolvency exhibited
- ✘ Indicia of insolvency not exhibited
- N/A Not applicable

Solvency

No	Indicia of Insolvency	SGL	SHPL
11	Creditors pressing for payment/demanding payment (including solicitor's letters, statements of claim, statutory demands, judgments or warrants)	✘	✘
12	Decrease of receivables and increase in unsecured creditors	N/A	N/A
13	Payment of all unsecured creditors cannot be made from cash at bank or other available resources	✘	✘
14	Company has difficulty procuring supplies from suppliers due to outstanding nature of its accounts	N/A	N/A
15	Difficulties in realising current assets (e.g. stock, debtors)	N/A	N/A
16	Inability to generate additional funds through the sale or realisation of assets to meet creditors	✘	✘
17	Inability to borrow or raise further equity capital	N/A	N/A
18	Poor relationship with present bank, including inability to borrow further funds	✘	✘
19	Inability to produce timely and accurate financial information to display trading performance, financial position and make reliable forecasts	✘	✘

Legend

- ✓ Indicia of insolvency exhibited
- ✘ Indicia of insolvency not exhibited
- N/A Not applicable

Solvency

Liquidity ratios below 1

- The following table is the combined current assets and current liabilities of the Companies and the combined liquidity ratios (current assets divided by current liabilities).
- As shown in the table below, the Companies do not experience any periods where the liquidity ratios are below 1.
- Over the last 12 months the Companies combined liquidity ratios range from low of 2.83 in November 2016 to a high of 7.79 December 2016. The increase in current assets held in December 2016 relates to the sale of SHPL's subsidiary SHI.
- On an individual basis, SHPL experiences some months with a liquidity ratio below 1, however, in these months SGL held significant cash reserves and would provide SHPL sufficient funding to allow it to pay all its liabilities as and when they fell due.

SGL and SHPL Combined Current Assets and Current Liabilities												
Item	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Current Assets	10,311,363	9,227,816	8,909,509	23,052,566	22,219,779	19,024,746	17,240,111	16,315,998	9,035,470	8,259,896	7,452,620	5,608,465
Current Liabilities	2,742,364	2,901,778	3,142,710	2,959,905	3,112,079	2,635,082	2,869,501	3,150,298	1,479,233	2,102,312	2,455,507	1,327,951
Surplus / (Deficiency)	7,568,999	6,326,038	5,766,799	20,092,661	19,107,700	16,389,664	14,370,609	13,165,700	7,556,238	6,157,584	4,997,113	4,280,514
Liquidity Ratio	3.76	3.18	2.83	7.79	7.14	7.22	6.01	5.18	6.11	3.93	3.04	4.22

Notes:

- Current assets and current liabilities shown above are exclusive of any intercompany loan accounts from any member of the Group.
- There are no provisions for either the TCI Parties litigation or the class action litigations against SGL.

Appendix 9 – EziBuy Proposal

EziBuy Proposal

8 March 2018

Binding Term Sheet - Acquisition and DOCA proposal

These terms are confidential and subject to the Non-Disclosure Agreement dated 17 January 2018 and are intended to be binding on the parties.

TERMS	
Background	
1. <i>Parties</i>	1.1 SurfStitch Group Limited (administrators appointed) ACN 602 288 004 (SGL) 1.2 SurfStitch Holdings Pty Limited (administrators appointed) ACN 601 114 603 (SHPL) 1.3 John Park, Quentin Olde and Joseph Hansell as administrators of SGL and SHPL (Administrators) 1.4 SurfStitch Pty Limited ACN 141 251 443 (SSAU) 1.5 EziBuy Holdings Ltd NZBN 9429033569444 (EziBuy)
2. <i>Purpose</i>	2.1 EziBuy wishes to acquire the entire share capital of SSAU and certain IP and assets related to the "SWELL" business held by SurfStitch USA Inc plus all IP and other assets used by SSAU that are owned by other members of the SurfStitch group, including but not limited to the following brand names and trademarks: <ul style="list-style-type: none"> • "Depactus", "No News", "Trouble Loves Company" (Additional IP), on the terms set out in this term sheet (Acquisition). 2.2 The Acquisition will be implemented via deeds of company arrangement (DOCAs) in respect of SGL and SHPL proposed by EziBuy as set out in this term sheet.
Acquisition terms	
3. <i>Acquisition of shares and certain IP and assets</i>	3.1 EziBuy agrees to acquire the shares of SSAU (on a cash-free, debt-free basis, subject to agreed normalised working capital) and the IP and assets related to the "SWELL" business held by SurfStitch USA Inc plus the Additional IP in exchange for: <ol style="list-style-type: none"> issuing SHPL with convertible notes in EziBuy (Convertible Notes); and the value, in cash, of any Net Working Capital Surplus (excluding cash) held by SSAU as at the date of the Acquisition, calculated as the surplus of actual working capital at Acquisition completion (Completion Working Capital) over the agreed level of normalised target working capital (Target Working Capital). Completion Working Capital and Target Working Capital will be calculated in accordance with Schedule A. If the Completion Working Capital is less than the Target Working Capital (that is, a working capital deficit), there will be no cash paid by EziBuy and SSAU will retain sufficient

	cash at Completion to compensate for the working capital deficit. 3.2 For the avoidance of doubt, the proposed acquisition will be on a cash-free, debt-free basis other than any cash required to be retained by SSAU as a result of the Net Working Capital Surplus calculation in 3.1(b). Any additional cash retained by SSAU, including any cash required to be retained as security for any banking facilities (including merchant facilities and rental bonds) will be acquired at full value in addition to the acquisition consideration calculated in 3.1 above.
4. <i>Conditions of Acquisition</i>	4.1 The Acquisition will be conditional on: <ol style="list-style-type: none"> the approval and execution of the DOCAs on terms materially consistent with this proposal; and releases by SGL group entities and their officers of all and any claims they have against SSAU, including intercompany loans and trading balances. 4.2 SGL, SHPL and the Administrators must use all reasonable endeavours to assist EziBuy to obtain a consent from the Landlord to a change in control under the lease for the warehouse and distribution centre in Coomera, Queensland arising as a result of the Acquisition.
5. <i>Deposit</i>	5.1 EziBuy must pay a refundable deposit of A\$200,000 (Deposit) to the Administrators no later than one clear business day prior to the creditors meeting of SGL and SHPL. Subject to paragraphs 5.2 and 5.3, the Administrators must hold the Deposit on trust for EziBuy and separate from the assets of SGL and SHPL pending Completion of the Acquisition. 5.2 The Administrators must repay the Deposit to EziBuy and the Deposit will vest in EziBuy absolutely, if: <ol style="list-style-type: none"> the transaction as set out in this term sheet is not approved at a meeting of creditors of SGL and SHPL on or before 31 March 2018; the DOCAs are not executed by the Administrators on or prior to 31 March 2018; the transaction as set out in this term sheet is approved at a meeting of creditors of SGL and SHPL and each relevant party executes the DOCAs; or an event outside of the control of EziBuy occurs which results in EziBuy being unable to execute the DOCAs. 5.3 Subject to paragraph 5.2, the Deposit will vest in the Administrators absolutely if the transaction as set out in this term sheet is approved at a meeting of creditors of SGL and SHPL and EziBuy fails to execute the DOCAs within 10 business days of the meeting of creditors, other than where EziBuy is unable to execute the DOCAs due to factors outside its control.
6. <i>Other terms</i>	To be set out in a share sale and asset sale agreement.
Convertible Note terms	

EziBuy Proposal

7. <i>Face value</i>	Each Convertible Note will have a face value of AS\$1.00 and there will be AS\$15,000,000 of Convertible Notes issued in aggregate
8. <i>Security and ranking</i>	Unsecured and rank for repayment of principal on liquidation equally with all other unsecured creditors of EziBuy. The Convertible Notes are mandatorily convertible on the terms set out below and are not repayable other than on an insolvency of EziBuy.
9. <i>Conversion terms</i>	<p>9.1 The Convertible Notes will be mandatorily converted into new ordinary shares of EziBuy, based on a conversion formula, on the earlier of:</p> <ul style="list-style-type: none"> (a) three years from the date of issue; and (b) the occurrence of a liquidity event of EziBuy (including an IPO or trade sale). <p>The shareholders of EziBuy intend to proceed with a liquidity event of EziBuy as soon as reasonably practical, subject to maximising returns to all shareholders and Convertible Note holders.</p> <p>9.2 The Convertible Notes will convert into at least 12,053,101 and up to 25,445,435 shares in EziBuy, representing between 5.0% and 10.0% of EziBuy's expanded share capital on a fully-diluted basis, based on the performance of the combined EziBuy and SurfStitch business. The conversion formula is set out in Schedule B to this term sheet.</p> <p>9.3 The Convertible Notes may be converted on the same basis and with the same proportional shareholding into shares in a holding company of EziBuy that owns 100% of EziBuy shares, or a wholly-owned subsidiary of EziBuy that owns 100% of the EziBuy business, in which case the entity issuing equity as a result of conversion of the Convertible Notes will be the entity that will be the subject of the liquidity event described in clause 9.1 above.</p> <p>9.4 On or prior to conversion of the Convertible Notes, the constitution of EziBuy will be revised or replaced so that it contains minority shareholder protection rights consistent with market practice, including tag-along and drag-along rights.</p> <p>9.5 On conversion, if the holder of a Note would hold less than 100 shares in EziBuy, EziBuy reserves the right to pay that person the cash value of the shares rather than issue that person with shares in EziBuy. The value of the cash to be paid will be the market value of EziBuy shares, being the implied value of the shares to be issued, as determined by the Board of EziBuy, based either on the liquidity event that has given rise to the conversion of the Notes or as otherwise determined by the Board of EziBuy.</p>
10. <i>Other terms</i>	<p>The Deed Administrators (and any subsequent holder) can transfer the Convertible Notes with the consent of EziBuy, such consent not to be unreasonably withheld.</p> <p>Other standard terms and conditions to be set out in a convertible note deed.</p>
High level DOCA terms	
11. <i>Proponent</i>	EziBuy
12. <i>Companies subject to DOCA</i>	SGL and SHPL

13. <i>Commencement Date</i>	The date of execution of the DOCA contemplated by this proposal.
14. <i>Proposed Deed Administrators and Trustees</i>	John Park, Quentin Olde and Joseph Hansell of FTI Consulting.
15. <i>Implementation of Acquisition</i>	As soon as practicable following the Commencement Date, the Deed Administrators will implement the Acquisition described in this proposal.
16. <i>Deed funds and assets</i>	<p>The deed funds will comprise:</p> <ul style="list-style-type: none"> (a) the existing cash reserves of SGL and SHPL; (b) the net excess cash held by SSAU and paid over as part of the consideration for the Acquisition; (c) the Convertible Notes; and (d) any other assets available to creditors of SGL and SHPL, other than the claim proceeds (below).
17. <i>Claim proceeds</i>	The proceeds of any claims against SGL, SHPL or the former directors and officers of SGL and SHPL, including any insurance proceeds, are not included in the deed funds and will be paid exclusively to the admitted creditors comprising the class action claimants.
18. <i>Distribution of deed funds and assets</i>	<p>18.1 Deed funds shall be applied:</p> <ul style="list-style-type: none"> (a) first, in payment of any Administrators' remuneration, costs and expenses which remain unpaid as at the Commencement Date; (b) second, in payment of the Deed Administrators' and Trustees' remuneration, costs and expense associated with administering the DOCAs and the creditors trusts; (c) third, in payment of the admitted participating creditor claims of participating creditors that are priority creditors in accordance with the Corporations Act 2001 (Cth) (Act); (d) fourth, an amount up to a maximum of \$250,000 to be paid on a basis to be agreed to current employees of SSAU as a retention bonus (payment to be subject to certain conditions); (e) fifth, in payment of the admitted participating creditor claims of the remaining participating creditors pro rata in accordance with the Act; (f) sixth, the total remaining cash balance of the deed fund will be paid to the admitted creditors comprising the class action claimants. <p>18.2 Deed fund assets (being the Convertible Notes) shall be distributed on the following basis:</p> <ul style="list-style-type: none"> (a) 80% to the admitted creditors comprising the class action claimants; and (b) 20% to the shareholders of SGL. <p>Alternatively, the Deed Administrators can hold the Convertible Notes on behalf of the admitted creditors until conversion. On conversion, EziBuy will issue shares directly to each of the admitted creditors comprising the participating class action claimants and the shareholders in the amounts as specified by the Deed Administrators. The Deed Administrators are to</p>

EziBuy Proposal

	provide all reasonable assistance necessary to facilitate the issue of the shares.
19. <i>Waiver and Release</i>	<p>19.1 In consideration for the distribution of the Convertible Notes and deed fund:</p> <p>(a) SGL and SHPL and any other group entities will release all or any claims such entity has or may have against SSAU; and</p> <p>(b) to the extent permissible by law, the participating creditors will release all or any claims each such creditor has or may have against SSAU.</p>
20. <i>Other terms</i>	More detailed DOCA terms to be set out at full documentation stage.
21. <i>Governing law</i>	This proposal is governed by the laws of New South Wales.

Date: 8 March 2018

Signed for and on behalf of **EziBuy Holdings Ltd**
by its authorised representative:



.....
Signature of authorised representative

Richard Facioni, Director

.....
Print name

Signed for and on behalf of **John Park, Quentin Olde and Joseph Hansell** as joint and several administrators of SurfStitch Group Limited and SurfStitch Holdings Pty Ltd:

.....
Signature

.....
Print name

EziBuy Proposal

SCHEDULE A – Calculation of Target and Completion Working Capital

Completion Working Capital

Completion Working Capital shall be calculated as follows:

Completion Working Capital =
Trade and other receivable
+ Inventories
+ Current tax asset
+ Other assets
- Trade and other payables
- Intercompany AP & AR
- Employee benefits
- Income tax provision
- Provisions
- Deferred revenue

where:

- Each item referred to above is as defined in the document "01.03.01 SSAU FY18 Revised Forecast (DataBook).xlsx" contained in the data room;
- Inventories will only include stock purchased in the 6 months prior to Acquisition completion.

For the avoidance of doubt, cash balances will be excluded from the calculation of Completion Working Capital.

Completion Working Capital will be calculated as soon as reasonably possible following Acquisition completion and, in any event, within 20 business days of Acquisition completion.

Target Working Capital

Target Working Capital shall be calculated as follows:

- Working capital shall be calculated in the same manner as Completion Working Capital at the end of each month ("EOM Working Capital") for the 5 months prior to Acquisition completion;
- Target Working Capital will be calculated as the simple average of Completion Working Capital and EOM Working Capital for the 5 months prior to Acquisition completion.

Sample Calculation

A sample calculation assuming Acquisition completion occurs on 31 March 2018 is set out below, using data contained in document "01.03.01 SSAU FY18 Revised Forecast (DataBook).xlsx". The Sample Calculation calculates Target Working Capital, Completion Working Capital and Net Working Capital Surplus

SurfStitch financial statements

Project Irvine

AUDS	1-Oct-17	1-Nov-17	1-Dec-17	1-Jan-18	1-Feb-18	1-Mar-18
Start period	31-Oct-17	30-Nov-17	31-Dec-17	31-Jan-18	28-Feb-18	31-Mar-18
End period	FY2018	FY2018	FY2018	FY2018	FY2018	FY2018
Financial year	Historical / Forecast	Historical	Historical	Forecast	Forecast	Forecast
Month	Month 10	Month 11	Month 12	Month 1	Month 2	Month 3

Target Working Capital

Business units only, excludes eliminations

Cash and cash equivalents	-	-	-	-	-	-
Trade and other receivables	690,011	880,604	1,270,126	1,258,574	1,288,021	1,230,552
Inventories	12,962,065	13,561,517	11,306,535	10,223,977	10,881,728	10,550,846
Current tax asset	-	-	-	-	-	-
Other assets	1,890,880	1,833,895	843,531	746,931	647,871	333,701
Current assets	15,542,955	16,276,016	13,420,191	12,229,483	12,597,621	12,115,199
Trade and other payables	(8,812,527)	(10,254,983)	(7,410,565)	(5,025,698)	(6,839,407)	(5,817,447)
Intercompany AP & AR	(434,766)	(478,255)	(488,540)	(467,187)	(477,994)	(477,907)
Employee benefits	(390,148)	(395,515)	(409,656)	(409,656)	(409,656)	(409,656)
Income tax provision	-	-	-	-	-	-
Provisions	(102,527)	(238,314)	(281,326)	(357,809)	(294,349)	(287,735)
Deferred revenue	(52,814)	(74,897)	(140,540)	(120,000)	(120,000)	(120,000)
Current liabilities	(9,792,782)	(11,442,064)	(8,730,626)	(6,380,349)	(8,141,405)	(7,092,744)

Monthly Working Capital	5,750,173	4,833,952	4,689,565	5,849,134	4,458,216	5,022,454
6 Month Average to 31 March						5,190,249
31 March Balance						5,022,454
Net Working Capital Surplus						(17,795)

EziBuy Proposal

SCHEDULE B – Convertible Note Conversion Formula

The Convertible Notes will, upon conversion, be issued with between 12,053,101 and 25,445,435 shares in EziBuy, representing:

- between 5.263% and up to 11.111% of EziBuy's current issued share capital; and
- between 5.000% and 10.000% of EziBuy's expanded share capital on a fully-diluted basis,

based on EziBuy's current share capital of 229,008,922 shares on issue.

The shares to be issued will be based on the relative Gross Profit contribution of EziBuy and SSAU calculated below.

$$\text{Shares to be issued} = SC \times DF$$

where:

$$SC = \text{EziBuy existing Share Capital} \\ = 229,008,922 \text{ shares,}$$

and

$$DF = \text{Dilution Factor} \\ = [RE / (1 - RE)]$$

where:

$$RE = \text{Resultant Equity Ownership.}$$

Resultant Equity Ownership shall be calculated as follows:

$$RE = 5.00\% + [(A - 30.0) / 100] + [(87.5 - B) / 250]$$

where:

$$A = \text{The greater of:} \\ A\$30.0m \text{ and SSAU Gross Profit for the 12 months preceding conversion (in \$A)}$$

and

$$B = \text{The lesser of:} \\ A\$87.5m \text{ and EziBuy Gross Profit for the 12 months preceding conversion (in \$A).}$$

subject to Resultant Equity Ownership being deemed to be 5.00% if the above calculation yields an amount below 5.00% and Resultant Equity Ownership being deemed to be 10.00% if the above calculation yields an amount above 10.00%.

The following table summarises the calculated results for Resultant Equity using the above formula:

		SSAU Gross Profit = A					
		\$ 30.00	\$ 31.00	\$ 32.00	\$ 33.00	\$ 34.00	\$ 35.00
EziBuy Gross Profit = B	\$ 87.50	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%
	\$ 85.00	6.0%	7.0%	8.0%	9.0%	10.0%	10.0%
	\$ 82.50	7.0%	8.0%	9.0%	10.0%	10.0%	10.0%
	\$ 80.00	8.0%	9.0%	10.0%	10.0%	10.0%	10.0%
	\$ 77.50	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%
	\$ 75.00	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

The following table summarises the calculated results for Shares to be issued under each of the above scenarios (millions):

		SSAU Gross Profit = A					
		\$ 30.00	\$ 31.00	\$ 32.00	\$ 33.00	\$ 34.00	\$ 35.00
EziBuy Gross Profit = B	\$ 87.50	12,053	14,618	17,237	19,914	22,649	25,445
	\$ 85.00	14,618	17,237	19,914	22,649	25,445	25,445
	\$ 82.50	17,237	19,914	22,649	25,445	25,445	25,445
	\$ 80.00	19,914	22,649	25,445	25,445	25,445	25,445
	\$ 77.50	22,649	25,445	25,445	25,445	25,445	25,445
	\$ 75.00	25,445	25,445	25,445	25,445	25,445	25,445

Appendix 10 – Cheadle Group Proposal

Cheadle Group Proposal

Proposal for a Deed of Company Arrangement

Surfstitch Group Limited (Administrators Appointed) ACN 602 288 004
Surfstitch Holdings Pty Ltd (Administrators Appointed) ACN 601 114 603

1. The Deed Administrators of the Deed of Company Arrangement ("Deed") and the Trustees of the Creditors Trust will be John Park, Quentin Olde and Joseph Hansell.
2. The Deed Administrators will have all of the powers specified in clause 2 of Schedule 8A of the Corporations Regulations.
3. It is proposed that a Deed and Creditors Trust be created to bind all unsecured creditors as at the date that the Company entered into administration.
4. The Company will retain approximately \$2.9M of the available cash resources as at the date of the commencement of the DOCA for working capital.
5. The Trust Fund will comprise the balance of the cash at bank of the Company as at the commencement date of the Deed.
6. The proponents have secured funding for the Company's ongoing operations and reinstatement up to an amount of \$4M.
7. Despite the Deed becoming a deed of company arrangement pursuant to section 444B(6), the operation of the Deed is subject to receipt by the Company of the resignations of Sam Weiss, Harry Hodge and Mike Sonand as directors of the company;
8. The Proponents of this Deed will make application to have the company reinstated on the ASX.
9. Any debts payable by or claims against the Company, the circumstances giving rise to which occurred after the execution of the Deed will not be liabilities of the deed administrators.
10. The property of the Company that is to be available to pay the cost of the voluntary administration, the Deed administration and the creditors entitlements will be:
 - (a) the Trust Fund; and
 - (b) the bank account of the administrators.
11. All other assets of the Company not included in this proposal will remain with the Company after the creation of the Creditors Trust.
12. All unsecured liabilities of the Company will be transferred to the Creditors Trust upon the creation of the Trust at which time the obligations of the Company to those creditors will be extinguished.
13. The Creditors Trust Fund will be applied as follows:
 - (a) Administrators fees, costs, liabilities and disbursements
 - (b) Deed administrators and trustees fees, costs, liabilities and disbursements
 - (c) Priority creditors as provided for in section 556 of the Corporations Act
 - (d) Ordinary unsecured creditors
14. A body of creditors have commenced proceedings against the company in two separate class actions. For the purposes of this proposal they are the Class Action Litigants.
 - (a) In addition to any distribution from the creditors trust fund Class Action Litigants will be issued shares in the Company within 60 days of the creation of the Creditors Trust.
 - (b) The Class Action Litigants will receive shares as determined by the Trustees the quantum of which will be calculated by the Trustee consistent with the recent decision of the Federal Court based on the formula set out in the annexure to this proposal.
 - (c) The procedure for ascertaining the recipients of shares will be by the adoption of the same regime proscribed by the Corporations Regulations for the acceptance or rejection of proofs of debt.
 - (d) In the event that the Company is not listed on the ASX the Company will offer to redeem any shares issued pursuant to this clause and pay to the Class Action Litigant an amount equal to the market value of the shares at the redemption date.
15. Annexed to this proposal is the proponents
 - (a) best estimate of the funds available to each class of Creditors
 - (b) proposed calculation formula for the quantum of shares to be issued to Class Action Litigants:

based on the information presently available from the administrators
16. Each creditor is to accept the distribution (including the issue of shares set out in 14 above) by the Trustee in full and final satisfaction of their claims as creditors against the Company.
17. The Company will be released from all admissible debts and claims of creditors on termination of the Deed.
18. The Deed will automatically terminate when any one of the following events occur:
 - (a) The Creditors Trust contemplated by this proposal is created.
 - (b) The Court makes an order terminating the Deed; or
 - (c) The Company's creditors pass a resolution terminating the Deed.
19. Related party creditors are not to prove in the deed of company arrangement and will not receive any distribution from the Creditors Trust.
20. The Deed Administrators are entitled to be reimbursed for the whole of the costs, charges and expenses incurred by the Deed Administrators in connection with or incidental to the Deed Administrators' administration of the deed and in carrying out their duties as Trustees of the Creditors Trust.
21. The Deed Administrators are entitled to a lien over the available property and any other property of the company to secure payment of the remuneration and reimbursements of the Deed Administrators'.
22. Schedule 8A of the Corporations Regulations will be incorporated into the Deed and the Trust subject to any changes requested by the Deed Administrator including those provisions setting out the procedure for the admission and rejection of proofs of debt for voting purposes and formal proofs of debt.
23. Control of the Company will revert to the remaining directors (after receipt of the resignations referred to in 5 above) upon termination of the Deed

Cheadle Group Proposal

24. Once the obligations under the Creditors Trust are satisfied, the Trustees will wind up the Creditors Trust
25. If the Proposers fail to execute the Trust Deed to the satisfaction of the Voluntary Administrators within 15 business days of the approval of the Deed and the Creditors Trust then the Company is to be wound up and the Deed administrators will become the liquidators.
26. If the Proposers fail to comply with any fundamental provisions of the Deed or the Creditors Trust then the Trustees are entitled to:
 - (a) Convene a meeting of the Creditors for the purposes of considering a resolution to vary or terminate the trust; or
 - (b) Apply to the Court to vary or terminate the Trust

SHPL
 Pay unreserved priority creditors and secured creditors (represents 100% according to the list provided by the Administrators)
 Pay unsecured creditors (represents same as what they would receive in a liquidation)
 Preserve the related party debts to other companies within the group.

\$

765,198.41 Preserved employees include: Bourke, Chen, Smith and Viewers
 374,534.15

SGL
 Pay unreserved unrelated creditors (including a calculated amount for statutory interest which equates to 100% according to the list provided by the Administrators).
 Preserve the related party debts to other companies within the group.

1,082,855.64

Administrators
 Pay (represents adopted fees and outlays)

4,862,500.00

Shareholdings
 Any excess should be refundable to SGL

But would pay additional admitted creditors but no more than what a liquidation would have paid.

Beneficiaries	Number of shares	% of issued shares post DOCA
Bond Funders (\$4m)	122,932,661.47	21.10%
DOCA and restructuring advisors fees	6,146,633.07	1.05%
Existing shareholders	278,850,000.00	47.85%
Class action shareholders	174,826,840.52	30.00%
	582,756,135.06	100.00%

Appendix 11 – EziBuy Information

EziBuy Information

Corporate Structure

Summary of EziBuy Proponent

Item	Details
Proponent	Ezibuy Holdings Ltd NZBN 9429033569444
Entity Type	Private Company Registered in New Zealand
Company Number	1915120
NZBN	9429033569444
Address	Level 4, 1 Kenwyn Street, Parnell, Auckland, 1052, New Zealand
Date of Incorporation	7-Mar-07
Directors	Richard Facioni Hilbertus Marinus Van Der Velde David Wilshire
Shareholders	100% - New Ezibuy Limited
Ultimate Holding Group	Alecon Group No.65 Pty Ltd

EziBuy Company Background

- Founded in 1978 in New Zealand, Ezibuy Holdings Limited (**EziBuy**) is now one of the leading multi-channel retailers in Australasia. (<https://www.ezibuy.com/>)
- EziBuy is a leader in the apparel and homeware catalogue market, mailing over 23 million catalogues annually and processing more than 1.75 million orders a year to customers in Australia and New Zealand. Over time EziBuy's business model has evolved into an ecommerce model with more than 50% revenue from online channels.
- EziBuy's women's fashion collection includes successful private labels Capture, Emerge and Grace Hill, along with the UK fashion label NEXT and exclusive European collections. It also has a focus on plus sized brands such as Sara, Deesse, Quayside Plus Size and Isobar Active Plus. In addition, EziBuy offers an extensive home and gift collection, as well as swimwear, lingerie, accessories, menswear and kidswear.

EziBuy's Ownership and Transaction History



- Alceon (EziBuy's current owner) is a specialist advisory, investment and capital solutions firm, which is wholly-owned by its executives. (<http://www.alceon.com.au/>)
- The Alceon team has extensive senior level experience in advisory and investment and, since inception in February 2010, has funded more than AU\$1.5billion of equity and debt investments, across a total asset base in excess of AU\$2.5billion.
- Alceon also has significant interests in other retail businesses in Australia such as Noni B Limited and the privately-owned discount variety retailer, Cheap as Chips.

EziBuy Board of Directors (Current)

- EziBuy Board contains a mix of Alceon and EziBuy executives.
 - Executive Chairman – Richard Facioni (Alceon Group)
 - Non- Executive Director – David Wilshire (Alceon Group)
 - Chief Executive Officer and Managing Director – Bert van der Velde

EziBuy Proposed transaction

- EziBuy wishes to acquire the entire share capital of SSAU (on a cash-free, debt-free basis, subject to agreed normalised working capital), certain Intellectual Property (IP), assets related to the "SWELL" business held by SSUS and all IP and other assets used by SSAU that are owned by other members of the SGL Group, including but not limited to, the brand names and trademarks "Depactus", "No News", "Trouble Loves Company" (Additional IP).

EziBuy Information

EziBuy Proposed transaction (continued)

- The Acquisition will be implemented via a DOCA.
- Details of the DOCA proposal are contained within this report.

Commercial rationale for the transaction

- The Proponents of the EziBuy Proposal are of the view that a combination of EziBuy and SSAU will be attractive because of:
 - **Cost synergy opportunities** – There are synergies to be gained from operational synergies (back-office and warehouse costs).
 - **Cross-Promotion to EziBuy and SSAU data bases** – specifically,
 - Market EziBuy to female SSAU customers over 35 and market SSAU to specific EziBuy customers who have opted in to receiving promotional emails.
 - Additionally, EziBuy has agreed to acquire third-party databases in exchange for sharing its own data base, which will be of value to both parties.

Financial performance of EziBuy

- The financial performance of EziBuy has been on an upward trajectory since Alceon's acquisition in 2017. We are informed by EziBuy that the key reasons for the turnaround in FY18 H1 are as below:
 - **Increase in sales:** Modification to the catalogue mailing strategy, elimination of unprofitable catalogues, increased mailing of more profitable catalogues and a more proactive promotional calendar.
 - **Gross margin improvements.** FY17 was impacted by aggressive discounting and clearance of aged stock. FY18 has benefited slightly from improved sourcing.
 - **Operational improvements.** Improvements driven by initiatives in key operational cost categories such as catalogue costs (reduction in pages of catalogues etc.)

NZ\$			
Ezibuy (Excl. Profile)	FY17 Act	FY18 Act/Fct	FY19 Fct
Net Sales incl. HVLV	157,429,534	167,475,937	160,185,706
Net sales exc HVLV	149,413,205	158,599,709	160,185,706
Cost of Goods Sold	(71,726,625)	(73,620,547)	(63,203,240)
Gross margin	85,702,910	93,855,389	96,982,466
Net Postage	(2,547,834)	(2,394,861)	(1,848,707)
Gross profit	83,155,076	91,460,528	95,133,759
GP Margin %	52.82%	54.61%	59.39%
Commercial Investment	(37,431,172)	(31,104,527)	(30,249,397)
Commercial margin	45,723,904	60,356,002	64,884,362
Direct Costs	(16,382,740)	(16,258,551)	(16,746,307)
Direct Contribution	29,341,164	44,097,451	48,138,055
Total Indirect Costs	(21,573,277)	(20,427,647)	(20,177,567)
Occupancy	(7,171,738)	(6,968,600)	(6,735,193)
Total Other Income	1,504,530	1,579,926	1,579,926
EBITDA (including other income)	2,100,679	18,281,131	22,805,221
EBITDA Margin %	1.33%	10.92%	14.24%

Notes:

1. We are informed that these numbers exclude the financials for Profile, which is a uniform hire subsidiary of EziBuy that is break-even and in the process of being sold.
2. High Value Low Volume (HVLV) Tax is the new law in relation to applicability of GST on low value imported goods, which comes into effect on 1 July 2018. EziBuy's financial forecasts for FY19 show revenue excluding HVLV

EziBuy Information

- Below is EziBuy's first half of FY18 compared to the first half of FY17.

NZ\$		
Ezibuy (Excl. Profile)	1H17	1H18
Net Sales incl. HVLV	80,811,478	86,748,940
Net sales exc HVLV	76,624,995	82,005,440
Cost of Goods Sold	(36,223,312)	(39,144,341)
Gross margin	44,588,166	47,604,600
Net Postage	(1,197,367)	(1,520,601)
Gross profit	43,390,799	46,083,999
<i>GP %</i>	<i>53.7%</i>	<i>53.1%</i>
Commercial Investment	(20,478,563)	(16,765,485)
Commercial margin	22,912,236	29,318,513
Direct Costs	(8,483,803)	(8,674,523)
Direct Contribution	14,428,433	20,643,990
Total Indirect Costs	(12,176,588)	(10,704,264)
Occupancy	(3,676,086)	(3,628,444)
Total Other Income	344,027	876,326
EBITDA (including other income)	(1,080,213)	7,187,608
<i>EBITDA Margin %</i>	<i>(1.34%)</i>	<i>8.29%</i>

Administrators' comments on the Proponent and its Business

- High level review of EziBuy's financials:** The Administrators have undertaken a process of reviewing high-level Profit and Loss numbers and asking questions to satisfy themselves that EziBuy's successful turnaround story, as depicted in the financials, has logical explanations.

- Track record of the DOCA proponents:** The team at Alceon are seasoned in turnaround of retail companies. E.g. Noni B.
- Assessing the business case for a merged EziBuy and SSAU business going forward:** The Administrators have made numerous enquiries and held meetings with the DOCA proponents to gain an understanding of their intentions and strategy with the combined business (SSAU and EziBuy) going forward. In addition, management meetings were facilitated between Alceon and the SSAU Management team.
- Whilst the Administrators made enquiries to satisfy themselves of the reasonableness of the financial material provided, the Administrators have not audited the financial information and provide no warranties on the accuracy of the information.

Proposed valuation by the DOCA Proponent of the Merged EziBuy and SSAU businesses

- While the EziBuy DOCA proponents have not directly valued the business, based on their commercial plans, due diligence process on SSAU and synergy analysis, they have provided us their estimates of the combined entity's FY20, with Revenue AUD\$248million and EBITDA AU\$40million, including a AU\$7million EBITDA contribution from SSAU.
- Based on our assessment of the current trajectory of EziBuy and Alceon team's track record with retail turnarounds, the above projections do not seem unachievable.

Key Commercial Risks

- Inability of EziBuy / Alceon team to implement a successful turnaround for SSAU due to any inherent challenges to SSAU's business model. (e.g. decline in organic traffic).
- EziBuy not achieving its forecasts and if performance of EziBuy deteriorates and EziBuy becomes insolvent, proving for a distribution on the face value of the Convertible Notes.
- The Proponents not proceeding with a "liquidity event" (trade sale or IPO) in the next three (3) years and Group Member Claimants will become minority shareholders in a private company (with limited shareholder protections and disclosure requirements)
- Currency risk - the majority of EziBuy revenue is in NZ dollars.
- Terms of the Convertible Notes are yet to be agreed - these may include (a) restrictions on the ability to transfer or sell these notes, (b) notes are unsecured and (c) terms that are unfavourable to convertible noteholders.

Appendix 12 – Cheadle Group Information

Cheadle Group Information

Business Going forward

- Under the Cheadle Group Proposal, SSAU will be the sole operating entity in the SGL Group.

Overall Business plan

- The DOCA proponents intend to continue with the current strategic focus of SSAU as per the Brief IM dated September 2017, namely
 - Brand positioning:** Redefine SSAU's proposition and use it effectively to acquire new customers from the target audience and differentiate the brand from retail product aggregators like Amazon.
 - Revenue streams:** Explore new revenue streams to capitalise on the current operating strengths of SSAU.
 - Improve Operating Discipline:** Continue to reduce costs across marketing, merchandising, its supply chain. Further restructuring initiatives will also be undertaken.
 - Conversion rate optimisation:** Further leverage the new platform capability, with a mobile focus to continue to grow conversion rates across all devices.
 - Category Expansion:** Expand into new "high potential" categories in existing markets by leveraging technology and infrastructure.
 - Gross Margin Expansion:** Continue to develop and grow a vertical product mix through the effective use of customer data and analytics.
 - International Expansion:** Expand into new "high potential" markets of New Zealand and North America with dedicated sites, enabling a localised experience for these markets and leveraging off the existing operating platform.
 - Suppliers & customers:** Revise trading terms with suppliers and investigate alternative payment gateways, logins and delivery options.

Financial Performance

- The financial performance of SSAU for FY16-FY18 is shown in the adjacent table. FY18 numbers comprise of actuals to January 2018 as per management accounts and forecasts prepared mid February 2018 by the SSAU finance team thereafter. No expenses of the SGL and SHPL Administrations are included in the financials.

- As advised by SSAU management, the FY18 numbers;
 - exclude the financial benefit of cost savings post Administration – which the Cheadle Group forecast will contribute an annual \$1.8m towards EBITDA; and
 - Include one off expenses of \$500k incurred during the financial year.
- The costs associated with operating a listed company (including directors' fees, audit and registry costs and listing fees which the Cheadle Group estimates will be less than \$700k, payable in cash and shares) are also excluded. These have historically been recorded as an expense of SGL.
- The Cheadle Group makes no promise or prediction on future financial performance.

\$'	FY16	FY17	FY18
SurfStitch Australia	Actual	Actual	7 + 5
Sales	83,571,044	79,483,394	68,506,233
Cost of goods sold	(49,186,765)	(44,497,162)	(39,203,459)
Gross profit	34,384,278	34,986,232	29,302,774
Overheads			
Employees/Contractors	(11,523,588)	(9,382,941)	(7,976,379)
Advertising & promotion	(7,268,493)	(6,836,052)	(5,937,580)
Distribution costs	(7,312,419)	(6,350,519)	(6,879,788)
Transaction fees	(1,670,892)	(1,760,200)	(1,563,333)
Website	(2,948,955)	(2,871,886)	(1,849,934)
Rent	(1,406,064)	(1,450,677)	(1,592,939)
Impairments & restructure	(24,920,268)	-	-
Other costs	(3,238,304)	(2,736,366)	(2,422,281)
	(60,288,982)	(31,388,642)	(28,222,234)
Corporate Overheads			
Vertical Products	-	(487,587)	(1,335,405)
Global - Other	-	(1,379,457)	-
	-	(1,867,044)	(1,335,405)
EBITDA	(25,904,704)	1,730,546	(254,866)
Plus impairments & restructure	24,920,268	-	-
Adjusted EBITDA*	(984,435)	1,730,546	(254,866)

Note *: Excludes impact of forecast \$1.8m cost savings and listed company costs.

Cheadle Group Information

Proposed Directors

- The board of SGL will be confirmed/selected from the following candidates:
 - **Tony Nash:** Founder of Booktopia. LinkedIn profile - <https://www.linkedin.com/in/nashtony/>
 - **Abigail Cheadle:** Non- executive director and Audit, Risk and Compliance Chair of SGL and Qantm IP Limited (ASX: QIP). LinkedIn profile - <https://www.linkedin.com/in/abigailcheadle/>
 - **Jon Brett:** Director of Vocus Group Limited and formerly of Investec Bank Australia
 - **Leonie Henzell:** Founder of Bockers & Pony, an e-commerce business. LinkedIn profile - <https://www.linkedin.com/in/leonie-henzell-7024615b/>

Proposed Management team

- The proposed management team will comprise of Justin Hillberg, the existing General Manager and the existing key management.

Cost savings post Administration

- As noted on the previous page, the Cheadle Group forecast that SSAU will be able to achieve cost savings over the 12 months post Administration which will contribute an additional \$1.8m towards annual EBITDA.

Proposed sources of working capital

- On effectuation of the Cheadle Group DOCA, the SGL Group will have approximately \$2.6m - \$2.9m cash at bank.
- Further, the Cheadle Group has advised that Greenwich Capital will provide up to \$4m in funding support.
- The Cheadle Group has provided us with a commitment letter for funding issued by Greenwich Capital.

Key commercial risks

- With the constant pressure on gross margins, SSAU's financial performance may not be sustainable over the long term.
- A turnaround of SSAU's financial performance is dependant on achieving the forecast \$1.8m in cost savings and/or improving sales above current levels.
- There has been stress on working capital requirement due to pressure on supplier credit terms, post announcement of the class actions and the voluntary administrations of SGL and SHPL. There is a risk that supplier credit terms will not improve on the effectuation of the Cheadle Group DOCA.
- Potentially, if existing and committed funding is insufficient, the risk of raising additional funds to build inventory in the lead up to the November and December 2018 trading period. Each year, SSAU historically generates much of its revenue during those months.
- Shareholders do not approve the share issue.
- The issue of shares may require the costs of a disclosure document (depending on whether certain exceptions apply).

Appendix 13 – Information about Cheadle Group Creditors’ Trust

Information about Cheadle Group Creditors' Trust

Cheadle Group Creditors' Trust

Introduction

- The Cheadle Group Proposal utilises a Creditors' Trust. The use of a Creditors' Trust involves potential risks and disadvantages when compared with the companies remaining subject to a DOCA. We explain those potential risks and disadvantages below.
- We also provide the additional information required by ASIC in accordance with Regulatory Guide 82 entitled "External Administrations: Deeds of Company Arrangement involving a Creditors' Trust". A copy of the regulatory guide is available from the ASIC website at <http://www.asic.gov.au/media/1239881/rg82.pdf> or from FTI Consulting on request.

Risks and disadvantages

- The Trustee will have a limited role under the Creditors' Trust. Their role is to:
 - adjudicate and make a final determination on claims;
 - distribute the Trust Fund to Priority and Ordinary Creditors; and
 - advise SGL of the quantum at which all Group Member Claims have been adjudicated so that each receives their appropriate allotment of shares.
- In those circumstances, and for the reasons set out below, the Administrators do not consider that any potential risks associated with the proposed Creditors' Trust will have a material adverse effect on creditors in this case.
- The risks of a creditors' trust compared to a company remaining subject to a DOCA can include:
 - Creditors' claims against a company may be extinguished before all or some of the trust funds are received. In this case, however, all trust funds will be received prior to the Claims being extinguished.
 - The trustee not having any right to terminate or vary the DOCA should the company not perform its contractual obligations under the DOCA. In this case, the SGL shares will not have been issued to the Group Member Claimants by the time their claims are extinguished. We will seek a contractually enforceable undertaking from SGL that it issues SGL shares in accordance with the terms of the Cheadle Group Proposal.

- Creditors forgo their statutory rights under the Act to seek the assistance of the Court, including the right to seek orders to terminate or vary the DOCA and to appeal against the adjudication of claims. However, creditors would have rights as beneficiaries under the relevant trusts legislation and under the Cheadle proposal, and the trustees would have power to convene a meeting of beneficiaries to vary the trust.
- Creditors may agree to the DOCA proposal without being aware of the implications of a creditors' trust. In this case, this report provides disclosure of material information about the DOCA and the creditors' trust.
- The additional complexity of the legal and documentary arrangements needed to support the use of a creditors' trust under a DOCA. In this case, whilst the DOCA and trust deed are yet to be drafted by Cheadle Group's legal advisers – we are advised that they have experience in dealing with DOCAs and Creditors' Trusts. On the basis that advice is correct, we do not believe the complexity of documentary arrangements pose a risk to creditors.
- The trustee's identity, skills, remuneration and insurance arrangements – these factors are addressed in the table commencing on the following page. For the reasons set out in the table, we do not believe the trustee's identity, skills, remuneration and insurance arrangements pose a risk to creditors in this instance.
- Non-uniformity of the State and Territory Trustee Acts governing trusts and trustees - the Creditors' Trust will be governed by the Trustee Act (NSW). We do not believe the application of this Act poses any risk for creditors.
- Differences in the ways trustees and registered liquidators are regulated and supervised, which may cause potential difficulties for ASIC and creditors to monitor and enforce proper conduct of the trustee. In a DOCA, creditors have the right to seek ASIC or court assistance under the Act. In a creditors' trust, the creditors (as beneficiaries) would not have those statutory rights and instead would have rights under the Trust Deed, in law or in equity. However, as the proposed trustees are registered liquidators, creditors will still be able to seek assistance from ASIC and the supervisory jurisdiction the Court has over trustees. Accordingly we do not believe this difference creates a material risk for creditors.

Information about Cheadle Group Creditors' Trust

ASIC Regulatory guide 82

■ This table provides creditors with the information about the proposed Creditors' Trust that ASIC requires Creditors to receive pursuant to Regulatory Guide 82.

Item	Details
Reasons for Creditors' Trust	<p>A Creditor Trust is required to:</p> <ol style="list-style-type: none"> 1. expedite the re-quotation of SGL's shares on the ASX. A company under Deed of Company Arrangement is unable to have its shares requested; 2. Resumption of control of the Companies' and SSAU to its new governance structure; and 3. give SSAU, the trading entity within the SGL Group, the best prospects of negotiating a return to usual trading terms with suppliers, following the imposition of relatively onerous terms during the Administrations.
Key Events	<p>If Creditors vote in favour of the Cheadle Group Proposal at the Second Meeting:</p> <ol style="list-style-type: none"> 1. Within 15 Business Days of the Second Meeting a DOCA and Trust Deed that conforms materially to the Cheadle Group Proposal will be executed; 2. The existing Directors will be removed and nominees of the Cheadle Group will be appointed as directors of SGL; 3. Amounts sufficient to pay the Administrators, Deed Administrators and Trustees remuneration, costs and trading expenses and the claims of Priority and Ordinary in full will be paid into the Deed Funds; 4. The DOCA will be effectuated, the Creditors' Trust will be settled, and the Deed Administrators will become the Trustees of the Creditors' Trust; 5. The balance of the Deed Fund will be transferred to the Trustees of the Creditors' Trust. The Trustees will hold that Deed Fund in accordance with the terms of the trust deed. 6. Following effectuation of the DOCA, SGL and SHPL will no longer be under external administration and will not be required to use the notification 'Subject to Deed of Company Arrangement' on public documents. 7. Upon creation of the Creditors' Trust, the claims of all participating Creditors who are bound by the DOCA will be converted from a claim against SGL and SHPL and a right to prove as creditor in the relevant DOCA, to the right to participate as a beneficiary of the relevant Creditors' Trust. The effect of this is that all Creditors' rights against SGL and SHPL are released and Creditors' only recourse are as a passive beneficiary of the Creditors' Trust. 8. SGL will attend to the SGL Group's financial reporting obligations under Part 2M.3 of the Act, specifically for the FY17 and 31 December 2017 (1HFY18) financial accounts. 9. Within 60 days, of establishing the Creditors' Trust, SGL will issue the shares and will apply for its shares to be reinstated to quotation on the ASX. If the Trustees have not finally adjudicated on the Group Member Claimants proofs of debt, by the time of issue, it is intended the shares will be issued to the Trustees for transfer to the Group Member Claimants when all claims are adjudicated on. If, for whatever reason, SGL considers that it is not possible for its shares to be reinstated to quotation – SGL will offer to acquire the shares at the then prevailing market value. 10. As soon as practicable, dividends will be paid to admitted Priority and Ordinary Creditors, unless any creditor appeals the adjudication of its submitted proof of debt. Any dividend payment may be delayed if an appeal is commenced against an adjudication. 11. On payment of the dividends, the Creditors' Trust will then be dissolved.
Return to Creditors	The forecast returns to Creditors under the Creditors' Trust is discussed in Section 10.

Information about Cheadle Group Creditors' Trust

Item	Details
Trustee Particulars	The Administrators will be the Trustees of the Creditors' Trust. The Administrators are registered liquidators, have the relevant skills and experience to perform the required duties and functions and have acted previously as trustees of Creditors' Trusts. The Administrators consider that there is no conflict of interest in them acting as Trustees and that they have adequate civil liability insurance (including professional indemnity and fidelity) that will cover conduct by them in their capacity as Trustees of the trust. ASIC will have certain supervisory powers (including the power to direct a registered liquidator to do certain things and disciplinary powers) in relation to the conduct of the Trustees. The Administrators will require that any replacement trustee (if required) will also be a registered liquidator.
Remuneration and costs	<p>The Creditors' Trust will provide for payment of the following from Trust Funds in priority to any distribution to Creditors:</p> <ol style="list-style-type: none"> Any approved remuneration owing to the Deed Administrators and the Administrators which remains unpaid as at the date of the DOCA being terminated and the Creditors' Trust coming into effect. Remuneration and costs due to the Trustees. The Trustees' Remuneration will be based on the hours spent by the Trustees, calculated in accordance with the schedule titled FTI Consulting – Corporate Finance & Restructuring Standard Rates effective 1 March 2017, which is enclosed as Schedule 4 of the Remuneration Approval Report found in Appendix 18 of this Report. We have estimated the remuneration and costs of the Trustees to be between \$450,000 and \$500,000. This estimate assumes that the adjudication of creditor claims does not require litigation or protracted negotiations, that the distributions from the Trust Fund occur in the timeframes proposed. <p>It is not possible to estimate the quantum of Trustee fees which may otherwise be incurred. We do not consider that additional professional fees will be incurred as a result of the use of the Creditors' Trust, compared with the position if SGL and SHPL remain subject to a DOCA. In a DOCA, the Deed Administrators' remuneration must be agreed by the Committee of Inspection or approved by resolution of creditors or by the Court. A creditor (among other parties) may apply to the Court to review the remuneration. In a Creditors' Trust, there is no equivalent statutory procedure in the Trustee Act 1925 (NSW) pursuant to which beneficiaries, the Committee of Creditors or the Court must agree or approve the Trustee's remuneration. A beneficiary can seek to review or challenge the Trustee's remuneration by application to the Supreme Court of New South Wales, including pursuant to Part 54 of the Uniform Civil Procedure Rules 2005.</p>
Indemnities	The Creditors' Trust will provide that the Trustees are entitled to be indemnified out of the Trust Fund for all actions, suits, proceedings, accounts, claims and demands arising out of or relating to the Administration, DOCA or Creditors' Trust which may be commenced, incurred by or made on the Trustees by any person and against all costs, charges and expenses incurred by the Trustees in respect of them, provided that the Trustees shall not be entitled to an indemnity in respect of any liabilities or demands to the extent that the indemnification contravenes the <i>Corporations Act</i> or the <i>Trustee Act</i> or if the Trustees, or any partner, employee, authorised agent or delegate of the Trustees have acted negligently, in breach of fiduciary duty or in breach of trust. Accordingly, fees and costs of the Trustees, and costs associated with any legal actions that are required to be defended or taken will be a cost of the Trust Fund. These fees and costs may diminish the return to creditors. Given the Trustees' limited role (being to adjudicate claims and distribute the Trust Fund) we do not envisage any material legal actions. The indemnity is continuing and takes effect from the commencement date of the DOCA. No other indemnity has been or is to be provided to the Trustees by any related or third party.
Powers	The Trustees will have all the powers of a natural person or a corporation in connection with the exercise of their rights and compliance with their obligations under the Creditors' Trust. The Trustees may exercise their rights and comply with their obligations under the Creditors' Trust in any manner they think fit. A deed administrator is governed by the Act whilst a trustee is governed by the Trust Deed and the Trustees Act 1925 (NSW). The proposed role of the Trustees here is limited to calling for and adjudicating on claims, and distributing the Trust Funds. The Administrators will require that the Trust Deed will incorporate the same powers that would usually also apply to a Deed Administrator, by reference to the Regulations which would apply in a DOCA. There are unlikely to be any deficiencies in the power of the Trustees to perform their limited functions, which may lead to applications to Court.

Information about Cheadle Group Creditors' Trust

Item	Details
Claims of Priority and Ordinary Creditors	<p>The claims of priority and ordinary creditors will be dealt with in accordance with the terms of the DOCA and the Creditors' Trust. The values of the claims are to be determined by the trustees. The trustees will have unrestricted and free access to all the books and records of the Company necessary to determine claims.</p> <p>The Creditors' priorities (as beneficiaries of the relevant trust) will follow the priorities set out in s556 of the Act.</p> <p>Upon creation of the Creditors' Trust all participating Creditors' Claims which were bound by the DOCA will be converted from a claim against the Company and a right to prove as a creditor in the DOCA to the right to participate as a beneficiary under the relevant trust fund. The effect of this is that all Creditors' rights against the Company are extinguished and Creditors' only recourse is as a passive beneficiary of the trust fund.</p>
Other Creditor / Beneficiary differences	<p>The Creditors' Trust provides some differences for creditors compared to a DOCA, which include:</p> <ol style="list-style-type: none"> 1. Any appeal to the Trustees' decision to reject a claim must be made within 14 days of the Trustees giving notice of rejection, or such longer period as the Trustees permit. In a liquidation, the Act (Regulation 5.6.54(1)(b)(i)) stipulates that the appeal must be made within 14 days of the liquidator giving notice of rejection, or such longer period as the court permits. Beneficiaries of a creditors' trust do not have statutory powers to call creditor meetings like they do in a DOCA. However, the Trust Deed stipulates that the requirements of the Act and Regulations relating to creditors' meetings, and the ability of the creditors to require a meeting to be held, will also apply to the Creditors' Trust. 2. In a DOCA, creditors have rights to call a meeting of creditors, or apply to the court to vary or terminate the DOCA. In a creditors' trust, creditors do not have this right. However, we cannot foresee circumstances where the Creditors' Trust would need to be terminated or varied, as the entirety of the Trust Fund is to be paid before the termination of the DOCA and the only role of the Creditors' Trust is to adjudicate on claims and make distributions to creditors. 3. Beneficiaries of the Creditors' Trust will have the same ability to report the conduct of the Trustees to ASIC as they would in a DOCA, as the Trustees are registered liquidators. We do not consider that these differences will have a material adverse effect on creditors.
FEG	Claims under FEG are not applicable as employee entitlements will be paid in full.

Information about Cheadle Group Creditors' Trust

Item	Details
Compliance opinion	<p>In relation to the Cheadle proposal, the ASX has broad powers to suspend or delist non-compliant companies.</p> <ol style="list-style-type: none"> (1) Under the Cheadle Proposal, upon the termination of the suspension, the Group may be deemed by the ASX to be unable to maintain sufficient levels of operation and adequate financial conditions to meet ASX requirements. No enquiries have been made to the ASX whether they will have this view. (2) The Cheadle proposed share buy back will need shareholder approval, it is unclear whether this would be provided. (3) The Cheadle Proposal would require shareholder approval to issue SGL shares to the Group Member Claimants or an ASX waiver. Without discussing the matter with the ASX, the Administrators are unable to say whether the ASX would consider granting this waiver.
Solvency Statement	<p>The Deed Administrators have formed the opinion that the Companies will be solvent at the date of effectuation of the DOCA, if the DOCA is wholly effectuated on the terms proposed, as all claims of Creditors' will be extinguished against the Company and will be transferred to the Cheadle Group Creditors' Trust. On effectuation, SHPL will retain approximately \$2.6m to \$2.9m in working capital for the operating subsidiary SSAU and the costs for operating a public company. The Cheadle Group has also advised that SGL will have access to \$4m of funding from Greenwich Partners if required.</p>
Tax (company/trust)	<p>The creation of a Creditors' Trust creates the potential for some taxation issues to arise, as compared to an ordinary DOCA proposal. These may mean that the funds available to creditors are reduced in order to account for any taxation liabilities associated with the administration of the distribution process under a trust structure. The Trustees will ensure that the DOCA provides for the costs of any forecast taxation liability to be paid into the Deed Fund. We do not expect that there will be any material changes to the funds available for distribution as a result of the Creditors' Trust structure, or that any taxation, capital gains or stamp duty liabilities will arise.</p>
Tax (creditor/beneficiary)	<p>There may be some implications for admitted Creditors as a result of receiving a distribution from a trust in respect of a bad or doubtful debt, rather than from the debtor company being administered under a DOCA. Creditors are advised to seek their own tax advice as to their particular tax position –the Administrators are unable to provide advice on this issue.</p>
Other	<p>We have not identified any other material aspects or implications of the Creditors' Trust.</p>

Appendix 14 – SSAU Management Letter

SSAU Management Letter



SurfStitch Pty Ltd T/A SurfStitch | ABN: 65 141 251 443 | ACN: 141 251 443

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MANAGEMENT LETTER OF PREFERENCE

3/2/2018

To whom it may concern,

We have worked with many proposals throughout the Administration process and based on what has been presented, we are encouraged that the critical business priorities will be supported in all cases to give the best chance of future success for the SurfStitch business.

A fundamental driver for the current and future success of SurfStitch is our people. SurfStitch has had a committed and passionate management team that has been instrumental in building the positive and productive culture that exists today. This core team has been focused on delivering strong turnaround results over the past 2 years, returning the core business (SurfStitch.com) to profitability in FY17. While the business performance has been understandably impacted during an extended period of Voluntary Administration, the team continues to be united and very motivated to get back to our strategic initiatives of **driving growth, expanding margins and improving our operating leverage**.

It is our collective opinion that this will be best achieved by;

- Keeping the Key Management Team together and return focus to the FY18 Strategic Objectives.
- Enabling additional investment and support to deliver growth initiatives of category and market expansion.
- Enabling additional investment in growing brand awareness and broadly communicating the refined SurfStitch brand proposition.
- Effectively communicating with all suppliers to rebuild supplier confidence as quickly as possible.
- Providing improved workplace stability for all employees by creating improved job security and role certainty.
- Include key employees in a renewed incentive scheme that is tied to performance and aimed at building accountability and retaining key employees through the critical transition and rebuild phase.

Sincerely

Justin Hillberg: GM SurfStitch

Appendix 15 – Estimated returns to creditors

Estimated Return to Creditors

SHPL Estimated return to creditors

- Below is the estimated return to creditors of SHPL based on high/low scenarios for the Liquidation, the EziBuy Proposal and the Cheadle Group Proposal. Explanatory notes are detailed on the following slide.

AU\$	Notes	Liquidation		EziBuy DOCA		Cheadle Group DOCA	
		Low	High	Low	High	Low	High
Assets available to Administrators							
Cash at Bank		4,727,518	4,727,518	4,727,518	4,727,518	4,727,518	4,727,518
Balance owing on the sale of SDUK shares	1	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Distribution on winding up of MSW	2	300,000	300,000	300,000	300,000	300,000	300,000
SSAU Cash at Bank	3			-	350,000		
Dividend from SSAU	4	1,300,000	3,700,000				
		9,827,518	12,227,518	8,527,518	8,877,518	8,527,518	8,527,518
Administrators' Remuneration and Disbursements	5	(2,088,000)	(2,038,000)	(2,139,000)	(2,089,000)	(2,139,000)	(2,089,000)
Administrators' Trading Expenses	5	(437,000)	(387,000)	(437,000)	(387,000)	(437,000)	(387,000)
Administrators' Legal and Other Costs	5	(171,000)	(171,000)	(171,000)	(171,000)	(171,000)	(171,000)
Liquidators' remuneration and costs	6	(175,000)	(200,000)	-	-	-	-
Deed Administrators'/Trustees' remuneration and costs	6	-	-	(100,000)	(75,000)	(100,000)	(75,000)
		6,956,518	9,431,518	5,680,518	6,155,518	5,680,518	5,805,518
Amount available for priority employee creditors							
Priority employee creditors	7	(898,292)	(898,292)	(898,292)	(701,462)	(755,199)	(755,199)
		6,058,226	8,533,226	4,782,226	5,454,056	4,925,318	5,050,318
Employee Retention Bonus	8			(250,000)	(250,000)	(250,000)	(250,000)
Distribution to SGL (Cheadle Group Proposal)	9					(1,549,117)	(1,385,117)
Amount retained for working capital (Cheadle Group Proposal)	9					(2,687,785)	(2,976,785)
		6,058,226	8,533,226	4,532,226	5,204,056	438,417	438,417
Amount available for ordinary creditors							
SGL (pre-appointment intercompany balance)	10	(6,042,465)	(8,504,616)	-	-	-	-
Ordinary creditors	10	(15,761)	(28,610)	(438,417)	(438,417)	(438,417)	(438,417)
		(6,058,226)	(8,533,226)	(438,417)	(438,417)	(438,417)	(438,417)
<i>Cents in the dollar return for ordinary creditors</i>		3.6 c/\$	6.5 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$
Amount available to SGL as 100% shareholder of SHPL	11	-	-	4,093,809	4,765,639	-	-

Estimated Return to Creditors

SHPL Notes

1. The deferred consideration of GB£2million (AUD3.5million) is to be paid on 16 March 2016. Refer to Section 5 for further details.
2. Distribution of \$300k expected from wind up of MSW. Based on discussions with SHPL and MSW management and a review of the MSW balance sheet.
3. EziBuy are offering to acquire SSAU on a cash free/debt free basis less working capital adjustment. Amount of \$350k is the forecast cash payment to SHPL following those adjustments in a high case. Nil in a low case. This item is not applicable under the Cheadle Group Proposal or the Liquidation scenario.
4. Forecast dividend from the winding up of SSAU on a close down basis. The calculations are adopted from information in the SSAU balance sheet dated 28 February 2018 and SSAU calculations of employee entitlements.
5. Estimate of costs, including remuneration, disbursements and operating costs up to the execution of the DOCA/commencement of winding up. Further details on the remuneration and disbursements are provided in **Appendix 18**.
6. The estimated Deed Administrator costs which assumes no appeals against the adjudication of proofs of debt.
7. Estimate of priority employee entitlements as per the EziBuy Proposal and Cheadle Group Proposals. The figures are estimate as the final quantum will depend on the number of employees continuing employment with SHPL or offered an equivalent position with SSAU.
8. Retention bonus payable (max AUD250k) under both the DOCA scenarios.
9. Under the Cheadle Group Proposal an amount from SHPL will be paid to SGL in order to have sufficient funds in the Deed fund to pay costs and ordinary creditors, including statutory interest, the remaining monies will be retained by SHPL for working capital.
10. Estimate only. The final quantum of ordinary creditors will be determined once proofs have been called for and subject to the adjudication of the claims. Detailed below is the summary of the unsecured claims under the Liquidation and DOCA proposals scenarios

AU\$	Liquidation		EziBuy DOCA		Cheadle Group DOCA	
	Low	High	Low	High	Low	High
Available for ordinary creditors	6,058,226	8,533,226	4,532,226	5,204,056	438,417	438,417
Unsecured creditors						
SGL (pre-appointment intercompany balance)	(168,084,315)	(130,323,981)	-	-	-	-
Ordinary Creditors	(438,417)	(438,417)	(438,417)	(438,417)	(438,417)	(438,417)
	(168,522,732)	(130,762,398)	(438,417)	(438,417)	(438,417)	(438,417)
<i>Cents in the dollar</i>	3.6 c/\$	6.5 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$

11. Surplus funds following payment of 100 cents in the dollar to all creditors.

Estimated Return to Creditors

SGL Estimated return to creditors

- Below is the estimated return to creditors of SHPL based on high/low scenarios for the Liquidation, the EziBuy Proposal and the Cheadle Group Proposal. Explanatory notes are detailed on the following slide.

AU\$	Notes	Liquidation		EziBuy DOCA		Cheadle DOCA	
		Low	High	Low	High	Low	High
Assets available to Administrators							
Cash at Bank		1,434,618	1,434,618	1,434,618	1,434,618	1,434,618	1,434,618
Proceeds from Westpac blocked account	1	-	300,000	898,650	898,650	-	-
Distribution from SHPL	2	6,042,465	8,504,616	4,093,809	4,765,639	1,535,831	1,371,831
		7,477,083	10,239,234	6,427,077	7,098,907	2,970,449	2,806,449
Administrators' Remuneration and Disbursements	3	(1,171,000)	(1,102,000)	(1,232,000)	(1,163,000)	(1,232,000)	(1,163,000)
Administrators' Trading Expenses	3	(15,000)	(20,000)	(15,000)	(20,000)	(15,000)	(20,000)
Administrators' Legal and Other Costs	3	(140,000)	(140,000)	(140,000)	(140,000)	(140,000)	(140,000)
Liquidators' Remuneration and costs	4	(600,000)	(400,000)	-	-	-	-
Deed Administrators'/Trustees' remuneration and costs	4	-	-	(500,000)	(400,000)	(500,000)	(400,000)
		(1,926,000)	(1,662,000)	(1,887,000)	(1,723,000)	(1,887,000)	(1,723,000)
Amount available for priority creditors		5,551,083	8,577,234	4,540,077	5,375,907	1,083,449	1,083,449
Priority employee creditors	5	(4,651)	(4,651)	(4,651)	(4,651)	(4,651)	(4,651)
Amount available for ordinary creditors		5,546,432	8,572,583	4,535,426	5,371,256	1,078,798	1,078,798
Ordinary creditors		(1,013,209)	(1,013,209)	(1,013,209)	(1,013,209)	(1,013,209)	(1,013,209)
<i>Cents in the dollar return for ordinary creditors</i>		100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$
		4,533,223	7,559,374	3,522,217	4,358,047	65,589	65,589
Statutory interest - assume 3 months to pay dividend	6	(65,589)	(65,589)	(65,589)	(65,589)	(65,589)	(65,589)
Amount Available to Group Member Claimants		4,467,634	7,493,785	3,456,628	4,292,458	-	-
Shares in EziBuy/SGL	8			6,018,765	19,955,947	3,870,000	6,084,000
Net return to Group Member Claimants		4,467,634	7,493,785	9,475,393	24,248,405	3,870,000	6,084,000
<i>Cents in the dollar return for Group Member Claimants</i>		5.2 c/\$	8.8 c/\$	11.1 c/\$	28.5 c/\$	4.6 c/\$	7.2 c/\$

Estimated Return to Creditors

SGL Notes

- Westpac holds \$898K in a blocked account as security for bank guarantees (\$480k) and the provision of merchant facilities. Under a liquidation scenario, the Administrators have assumed a call on the bank guarantees and the retention of remaining funds by Westpac under the merchant facilities for non-delivery and charge-backs. Under the EziBuy Proposal, EziBuy will account to the Administrators for the amount held in the blocked account. Under the Cheadle Group Proposal, Westpac will continue to provide merchant facilities secured by the blocked account.
- Refer to SHPL notes 9 (Cheadle Group Proposal), 10 (Liquidation) and 11 (EziBuy Proposal) for the calculation of these amounts.
- Estimate of costs, including remuneration, disbursements and operating costs up to the execution of the DOCA/commencement of winding up. Further details on the remuneration and disbursements are provided in **Appendix 18**.
- Estimate only. Assumes no appeals against the adjudication of proofs of debt.
- Amount owing to the ATO for unpaid superannuation.
- Statutory interest payable pursuant to section 563B where all creditors other than subordinate creditors have their claims paid in full in a liquidation. The EziBuy Proposal and the Cheadle Group Proposals contemplate creditors receiving a similar interest payment under their respective DOCAs.
- Calculations of value of shares in EziBuy and SGL (Cheadle Group Proposal). Additional notes to the calculations to the side.

AU\$	Notes	EziBuy DOCA		Cheadle DOCA		Additional Notes:
		Low	High	Low	High	
Future maintainable EBITDA						
EziBuy	i	16,818,640	22,165,818	-	-	i. EBITDA based on information provided by EziBuy.
SGL	ii	1,990,000	2,290,000	1,990,000	2,290,000	ii. As per normalised management forecasts.
Less annual ASX listed company costs	iii	-	-	(700,000)	(600,000)	iii. EziBuy - Assumes similar costs already incurred in EziBuy business; Cheadle Group - As per Cheadle Group's assumption that costs would be "less than \$700k".
		18,808,640	24,455,818	1,290,000	1,690,000	iv. As per Administrators' analysis including consideration of EBITDA multiples for comparable businesses - in terms of both business operations and revenue size. The valuation multiple on allotment of shares may differ to that forecast due to, amongst other matters, prevailing trading and economic conditions.
EBITDA Multiple	iv	10.0x	12.0x	10.0x	12.0x	v. As per management accounts, not including any future debt.
Enterprise Value		188,086,401	293,469,813	12,900,000	20,280,000	vi. Discount reflects the risk of a "liquidity event" (as defined in the EziBuy Proposal) does not occurring within 3 years) and shares are allotted in a private company that has an illiquid market for its shares.
Less debt	v	-	-	-	-	
Equity value		188,086,401	293,469,813	12,900,000	20,280,000	
Private company shareholder discount	vi	20.0%	15.0%	N/A	N/A	
Shareholder value		150,469,121	249,449,341	12,900,000	20,280,000	
% of shares to be issued to Subordinate Creditors		4.0%	8.0%	30.0%	30.0%	
Amount available to Subordinate Creditors		6,018,765	19,955,947	3,870,000	6,084,000	

Additional Notes:

- EBITDA based on information provided by EziBuy.
- As per normalised management forecasts.
- EziBuy - Assumes similar costs already incurred in EziBuy business; Cheadle Group - As per Cheadle Group's assumption that costs would be "less than \$700k".
- As per Administrators' analysis including consideration of EBITDA multiples for comparable businesses - in terms of both business operations and revenue size. The valuation multiple on allotment of shares may differ to that forecast due to, amongst other matters, prevailing trading and economic conditions.
- As per management accounts, not including any future debt.
- Discount reflects the risk of a "liquidity event" (as defined in the EziBuy Proposal) does not occurring within 3 years) and shares are allotted in a private company that has an illiquid market for its shares.

Estimated Return to Creditors

SGL Estimated return Shareholders

- For the benefit of Group Member Claimants who remain shareholder of SGL, detailed below is the estimated aggregate value of shares shareholders will get under the EziBuy Proposal and the Cheadle Group Proposal.

AU\$	EziBuy DOCA		Cheadle Group DOCA	
	Low	High	Low	High
Shareholder value	150,469,121	249,449,341	12,900,000	20,280,000
% of shares to be issued to Shareholders	1.0%	2.0%	47.9%	47.9%
Amount available to Shareholders	1,504,691	4,988,987	6,172,650	9,703,980

Appendix 16 – Creditor Information Sheet: Guide to Approving Remuneration

Creditor Information Sheet – Guide to Approving Remuneration

Information sheet: Approving remuneration of an external administrator



If you are a creditor in a liquidation, voluntary administration or deed of company arrangement you may be asked to approve the external administrator's remuneration. An external administrator can be a liquidator, voluntary administrator or deed administrator. The process for approving the remuneration for each of these is the same.

This information sheet gives general information to help you understand the process of approving an external administrator's remuneration and your rights in this process. The following topics are covered in this information sheet:

- About external administrations
- External administrator's remuneration and costs
- Calculating remuneration
- Information you will receive
- Approving remuneration
- Who may approve remuneration
- Deciding if remuneration is reasonable
- What can you do if you decide the remuneration is unreasonable?
- Reimbursement of out of pocket costs
- Queries and complaints
- More information.

About external administrations

If a company goes into liquidation, voluntary administration or enters into a deed of company arrangement, an independent person is appointed to oversee the administration. They are called an external administrator and include a liquidator, voluntary administrator and deed administrator, depending on the type of administration involved. In this information sheet they are simply referred to as an external administrator.

The duties of an external administrator are specified in legislation and they must adhere to certain standards while conducting the administration.

All external administrators are required by law to undertake certain tasks which may not benefit creditors directly (e.g. investigating whether any offences have been committed and reporting to the Australian Securities and Investments Commission (ASIC)).

External administrator's remuneration and costs

External administrators are entitled to be paid for the necessary work they properly perform in the administration.

An external administrator is entitled:

- to be paid reasonable remuneration, for the work they perform, once this remuneration has been approved,
- to be paid for internal disbursements they incur in performing their role (these costs do not need approval), and
- to be reimbursed for out-of-pocket costs incurred in performing their role (these costs do not need approval).



Common internal disbursements are stationery, photocopying and telephone costs.

Commonly reimbursed out-of-pocket costs include:

- legal fees
- a valuer's, real administration agent's and auctioneer's fees
- postage costs
- retrieval costs for recovering the company's computer records, and
- storage costs for the company's books and records.

Creditors have a direct interest in the amount of an external administrator's remuneration and costs, as these will generally be paid from the administration before any payments are made to creditors.

Remuneration and internal disbursements must be approved in accordance with the Corporations Act and Insolvency Practice Rules (Corporations) before it can be paid.

If there is a shortfall between the external administrator's remuneration and the assets available from the administration, in certain circumstances the external administrator may arrange for a third party to pay the shortfall. As a creditor, you will be provided details of any such arrangement.

If there are not enough assets to pay the external administrator's remuneration and costs, and there is no third party payment arrangement, the external administrator remains unpaid.

Calculating remuneration

An external administrator may calculate their remuneration using one (or a combination) of a number of methods, such as:

- on the basis of time spent working on the administration, according to hourly rates
- a quoted fixed fee, based on an estimate of the costs
- a percentage (usually of asset realisations), or
- a contingent basis on a particular outcome being achieved.

Charging on the basis of time spent is the most common method used. External administrators have a set of hourly rates that they will seek to charge. These rates are set to reflect the seniority, skills and experience of staff and, where applicable, the complexity and risks of the bankruptcy. They cover staff costs and overheads.

If remuneration is being charged on a time basis, the external administrator must keep time sheets noting the number of hours spent on the tasks performed.

Creditors have a right to question the external administrator about the remuneration and the rates to be charged. They also have a right to question the external administrator about the fee calculation method used and how the calculation was made. The external administrator must justify why the chosen fee calculation method is appropriate for the administration.

Information you will receive

There are different types of remuneration reports that you may receive during the course of an external administration. The following table details the reports and when you might receive them.

Creditor Information Sheet – Guide to Approving Remuneration



Document	Information it contains	When you will receive it
Initial Remuneration Notice (IRN)	<ul style="list-style-type: none"> A brief explanation of the types of methods that may be used to calculate fees. The external administrator's chosen fee calculation method(s) and why it is appropriate. Details of the external administrator's rates, including hourly rates if time spent basis is used. An estimate of the external administrator's remuneration. The method that will be used to calculate disbursements. 	<p>Voluntary Administration – with the notice of first meeting.</p> <p>Creditors' voluntary liquidation – within 10 business days of appointment.</p> <p>Court liquidation – within 20 business days of appointment.</p>
Remuneration Approval Report (RAR)	<ul style="list-style-type: none"> A summary description of the major tasks performed, or likely to be performed. The costs associated with each of those major tasks and the method of calculation. The periods at which the external administrator proposes to withdraw funds from the administration for remuneration. An estimated total amount, or range of total amounts, of the external administrator's remuneration. An explanation of the likely impact of that remuneration on the dividends (if any) to creditors. Where internal disbursements are being claimed, the external administrator will report to creditors on the amount and method of calculation of these disbursements. 	<p>Sent at the same time as:</p> <ul style="list-style-type: none"> the notice to creditors of the meeting at which approval of remuneration will be sought; or the notice to creditors of the proposal without a meeting by which approval of remuneration will be sought <p>If approval of remuneration is not being sought, a RAR will not be provided.</p>

Approving remuneration

The meeting of creditors (or committee of inspection) gives a chance for those participating to ask questions about the external administrator's remuneration. Fees are then approved by a vote of the creditors. Alternatively, the external administrator may seek approval of remuneration via a proposal without a meeting. Whichever method is used, the external administrator must provide the same report to creditors about their remuneration (Remuneration Approval Report).

Creditors may be asked to approve remuneration for work already performed and/or remuneration estimate for work not yet carried out. If the work is yet to be carried out, the external administrator must set a maximum limit (cap) on the future remuneration approval. For example, 'future remuneration is approved, calculated on hours worked at the rates charged (as set out in the provided rate scale) up to a cap of \$X'.

If the remuneration for work done then exceeds this figure, the external administrator will have to ask the creditors to approve a further amount of remuneration, after accounting for the amount already incurred.

If an external administrator can't get the creditors' approval, an application can be made to the Court to determine their remuneration.

When there are limited funds available in the administration, or the external administrator's remuneration is below a statutory threshold, an external administrator is entitled to draw a one-off amount of up to that threshold plus GST, without creditor approval. This amount is currently \$5,000 (indexed).

Who may approve remuneration?

Committee of inspection approval

A committee of inspection will generally only be established where there are a large number of creditors and/or complex matters which make having a committee desirable. Committee members are chosen by a vote of all creditors and work with the external administrator to represent the creditors' interests.

If there is a committee, the external administrator will ask it to approve the remuneration. A committee makes its decision by a majority in number of its members present in person at a meeting, but it can only vote if a majority of its members attend.

In approving the remuneration, it is important that committee members understand that they represent all the creditors, not just their own individual interests.

Creditors' approval

Creditors approve remuneration by passing a resolution at a creditors' meeting. Creditors may vote according to their individual interests.

To approve an external administrator's remuneration, a resolution is put to the meeting to be decided on the voices or by a 'poll' (if requested by the external administrator or a person participating and entitled to vote at the meeting). A poll requires a count of each vote and its value to be taken and recorded for each creditor present and voting.

A proxy is a document whereby a creditor appoints someone else to represent them at a creditors' meeting and to vote on their behalf. A proxy can be either a general proxy or a special proxy. A general proxy allows the person holding the proxy to vote how they want on a resolution, while a special proxy directs the proxy holder to vote in a particular way.

A creditor will sometimes appoint the external administrator as a proxy to vote on the creditor's behalf. An external administrator is only able to vote on remuneration if they hold a special proxy.

There are provisions for a resolution to be passed by creditors without a meeting. This still requires a majority in value and number of creditors voting to vote in favour of the resolution. Creditors representing at least 25% in value of those responding to the external administrator's proposal can object to the proposal being resolved without a meeting of creditors.

Creditor Information Sheet – Guide to Approving Remuneration



Deciding if remuneration is reasonable

If you are asked to approve an external administrator's remuneration, your task is to decide if the amount of remuneration is reasonable, given the work carried out in the administration and the results of that work.

You may find the following information from the external administrator useful in deciding if the remuneration claimed is reasonable:

- the method used to calculate remuneration
- the major tasks that have been performed, or are likely to be performed, for the remuneration
- the remuneration/estimated remuneration (as applicable) for each of the major tasks
- the size and complexity (or otherwise) of the administration
- the amount of remuneration (if any) that has previously been approved
- if the remuneration is calculated, in whole or in part, on a time basis:
 - the period over which the work was, or is likely to be performed
 - if the remuneration is for work that has already been carried out, the time spent by each level of staff on each of the major tasks
 - if the remuneration is for work that is yet to be carried out, whether the remuneration is capped.

ARITA's Code of Professional Practice ('the Code') outlines the steps external administrators should take to make sure they fulfil their responsibilities to creditors when asking creditors to approve remuneration, including when those creditors are acting in their capacity as committee members. The Code is available on the ARITA website at www.arita.com.au.

If you need more information about remuneration than is provided in the external administrator's report, you should let them know before the meeting at which remuneration will be voted on.

What can you do if you think the remuneration is unreasonable?

If you think the remuneration being claimed is unreasonable, you should raise your concerns with the external administrator. It is your decision whether to vote in favour of, or against, a resolution to approve remuneration. You may also choose to not vote on the resolution (abstain).

You also have the power to put a resolution to the meeting. For example, you could put forward a resolution to change the way the external administrator charges for remuneration, or the periods at which the external administrator may withdraw funds. Any amending resolution must occur before the vote being taken on the resolution to approve remuneration. If the amended proposal is passed, the resolution is binding on the external administrator. However, such an amendment may result in the external administrator seeking to be replaced by another external administrator.

If the external administrator is seeking approval of remuneration via a resolution without a meeting and more than 25% in value of the creditors responding object using the form provided by the external administrator, the proposal will not pass. If the external administrator wants the proposal passed, a meeting will need to be convened and any creditor entitled to participate in the meeting has the right, before the vote is taken, to put a resolution to the meeting as mentioned above.

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A creditor may apply to Court for a review of an external administrator's remuneration. Creditors also have the power to appoint, by resolution, a reviewing liquidator to review any remuneration approved within the six months and any disbursements incurred in the 12 months before the reviewing liquidator's appointment. The cost of a reviewing liquidator is paid from the assets of the external administration. An individual creditor may also appoint a reviewing liquidator with the external administrator's consent. An individual creditor seeking the appointment of a reviewing liquidator must pay the cost of the reviewing liquidator.

Reimbursement of out-of-pocket costs

An external administrator should be very careful incurring costs that must be paid from the administration; as careful as if they were incurring the expenses on their own behalf. Their report on remuneration sent to creditors must also include information on the out-of-pocket costs of the administration (disbursements).

Where these out-of-pocket costs are internal disbursements paid to the external administrator's firm (for example photocopying and phone calls) the external administrator must request creditor approval of these amounts. The external administrator may also ask for approval of internal disbursements in advance. If they do so, they will set the rates for those disbursements and a cap on the maximum amount that can be drawn.

If you have questions about any of these costs, you should ask the external administrator and, if necessary, bring it up at a creditors' or committee meeting. If you are still concerned, you have the right to seek the appointment of a reviewing liquidator (refer above).

Queries and complaints

You should first raise any queries or complaints with the external administrator or their firm.

If this fails to resolve your concerns, including any concerns about their conduct, you can lodge a complaint with ARITA at www.arita.com.au or with ASIC at www.asic.gov.au. ARITA is only able to deal with complaints in respect of their members.

More information

The [ARITA website](http://www.arita.com.au) contains the ARITA Code of Professional Practice which is applicable to all its members. ARITA also provides general information to assist creditors at www.arita.com.au/creditors.

ASIC includes information on its website which may assist creditors. Go to www.asic.gov.au and search for 'insolvency information sheets'.

Important note: This information sheet contains 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. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances.

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ASIC

Australian Securities & Investments Commission

INFORMATION SHEET 85

Approving fees: a guide for creditors

If a company is in financial difficulty, it can be put under the control of an independent external administrator.

This information sheet gives general information for creditors on the approval of an external administrator's fees in a liquidation of an insolvent company, voluntary administration or deed of company arrangement (other forms of external administration are not discussed in this information sheet). It outlines the rights that creditors have in the approval process.

Entitlement to fees and costs

A liquidator, voluntary administrator or deed administrator (i.e. an 'external administrator') is entitled to be:

- paid reasonable *fees*, or remuneration, for the work they perform, once these fees have been approved by a creditors' committee, creditors or a court, and
- reimbursed for out-of-pocket *costs* incurred in performing their role (these costs do not need creditors' committee, creditor or court approval).

External administrators are only entitled to an amount of fees that is reasonable for the work that they and their staff properly perform in the external administration. What is reasonable will depend on the type of external administration and the issues that need to be resolved. Some are straightforward, while others are more complex.

External administrators must undertake some tasks that may not directly benefit creditors. These include reporting potential breaches of the law and lodging a detailed listing of receipts and payments with ASIC every six months. The external administrator is entitled to be paid for completing these statutory tasks.

For more on the tasks involved, see ASIC's information sheets INFO 45 *Liquidation: a guide for creditors* and INFO 74 *Voluntary administration: a guide for creditors*.

Out-of-pocket costs that are commonly reimbursed include:

Important note: This information sheet contains 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. This document 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.

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- legal fees
- valuer's, real estate agent's and auctioneer's fees
- stationery, photocopying, telephone and postage costs
- retrieval costs for recovering the company's computer records, and
- storage costs for the company's books and records.

Creditors have a direct interest in the level of fees and costs, as the external administrator will, generally, be paid from the company's available assets before any payments to creditors. If there are not enough assets, the external administrator may have arranged for a third party to pay any shortfall. As a creditor, you should receive details of such an arrangement. If there are not enough assets to pay the fees and costs, and there is no third party payment arrangement, any shortfall is not paid.

Who may approve fees

Who may approve fees depends on the type of external administration: see Table 1. The external administrator must provide sufficient information to enable the relevant decision-making body to assess whether the fees are reasonable.

Table 1: Who may approve fees

	Creditors' committee	Creditors	Court
Administrator in a voluntary administration	✓ ¹	✓	✓
Administrator of a deed of company arrangement	✓ ¹	✓	✓
Creditors' voluntary liquidator	✓ ¹	✓ ⁵	✗ ³
Court-appointed liquidator	✓ ¹	✓ ^{4,5}	✓ ²

¹ If there is one.

² If there is no approval by the committee or the creditors.

³ Unless an application is made for a fee review.

⁴ If there is no creditors' committee or the committee fails to approve the fees.

⁵ If insufficient creditors turn up to the meeting called by the liquidator to approve fees, the liquidator is entitled to be paid up to a maximum of \$5000, or more if specified in the Corporations Regulations 2001.

Creditors' committee approval

If there is a creditors' committee, members are chosen by a vote of creditors as a whole. In approving the fees, the members represent the interests of all the creditors, not just their own individual interests.

There is not a creditors' committee in every external administration. A creditors' committee makes its decision by a majority in number of its members present at a meeting, but it can only act if a majority of its members attend.

To find out more about creditors' committees and how they are formed, see ASIC's information sheets INFO 45 *Liquidation: a guide for creditors*, INFO 74 *Voluntary administration: a guide for creditors* and INFO 41 *Insolvency: a glossary of terms*.

Creditors' approval

Creditors approve fees by passing a resolution at a creditors' meeting. Unless creditors call for a poll, the resolution is passed if a simple majority of creditors present and voting, in person or by proxy,

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indicate that they agree to the resolution. Unlike where acting as committee members, creditors may vote according to their individual interests.

If a poll is taken, rather than a vote being decided on the voices or by a show of hands, a majority in *number* and *value* of creditors present and voting must agree. A poll requires the votes of each creditor to be recorded.

A separate resolution of creditors is required for approving fees for an administrator in a voluntary administration and an administrator of a deed of company arrangement, even if the administrator is the same person in both administrations.

A proxy is where a creditor appoints someone else to represent them at a creditors' meeting and to vote on their behalf. A proxy can be either a *general* proxy or a *special* proxy. A general proxy allows the person holding the proxy to vote as they wish on a resolution, while a special proxy directs the proxy holder to vote in a particular way.

A creditor will sometimes appoint the external administrator as a proxy to vote on the creditor's behalf. An external administrator, their partners or staff must not use a general proxy to vote on approval of their fees; they must hold a special proxy in order to do this. They must vote all special proxies as directed, even those against approval of their fees.

Calculation of fees

Fees may be calculated using one of a number of different methods, such as:

- on the basis of *time spent* by the external administrator and their staff
- a quoted *fixed fee*, based on an upfront estimate, or
- a percentage of asset realisations.

Charging on a time basis is the most common method. External administrators have a scale of hourly rates, with different rates for each category of staff working on the external administration, including the external administrator.

If the external administrator intends to charge on a time basis, you should receive a copy of these hourly rates soon after their appointment and before you are asked to approve the fees.

The external administrator and their staff will record the time taken for the various tasks involved, and a record will be kept of the nature of the work performed.

It is important to note that the hourly rates do not represent an hourly wage for the external administrator and their staff. The external administrator is running a business—an insolvency practice—and the hourly rates will be based on the cost of running the business, including overheads such as rent for business premises, utilities, wages and superannuation for staff who are not charged out at an hourly rate (such as personal assistants), information technology support, office equipment and supplies, insurances, taxes, and a profit.

External administrators are professionals who are required to have qualifications and experience, be independent and maintain up-to-date skills. Many of the costs of running an insolvency practice are fixed costs that must be paid, even if there are insufficient assets available to pay the external administrator for their services. External administrators compete for work and their rates should reflect this.

These are all matters that committee members or creditors should be aware of when considering the fees presented. However, regardless of these matters, creditors have a right to question the external administrator about the fees and whether the rates are negotiable.

It is up to the external administrator to justify why the method chosen for calculating fees is an appropriate method for the particular external administration. As a creditor, you also have a right to question the external administrator about the calculation method used and how the calculation was made.

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APPROVING FEES: A GUIDE FOR CREDITORS

Report on proposed fees

When seeking approval of fees, the external administrator must send committee members/creditors a report with the notice of meeting setting out:

- information that will enable the committee members/creditors to make an informed assessment of whether the proposed fees are reasonable
- a summary description of the major tasks performed, or to be performed, and
- the costs associated with each of these tasks.

Committee members/creditors may be asked to approve fees for work already performed or based on an estimate of work yet to be carried out.

If the work is yet to be carried out, it is advisable to set a maximum limit ('cap') on the amount that the external administrator may receive. For example, future fees calculated according to time spent may be approved on the basis of the number of hours worked at the rates charged (as set out in the provided rate scale) up to a cap of \$X. If the work involved then exceeds this figure, the external administrator will have to ask the creditors' committee/creditors to approve a further amount of fees, after accounting for the fees already incurred.

Deciding if fees are reasonable

If asked to approve an amount of fees either as a committee member or by resolution at a creditors' meeting, your task is to decide if that amount of fees is reasonable, given the work carried out in the external administration and the results of that work.

You may find the following information from the external administrator useful in deciding if the fees claimed are reasonable:

- the method used to calculate fees
- the major tasks that have been performed, or are likely to be performed, for the fees
- the fees/estimated fees (as applicable) for each of the major tasks
- the size and complexity (or otherwise) of the external administration
- the amount of fees (if any) that have previously been approved
- if the fees are calculated, in whole or in part, on a time basis:
 - the period over which the work was, or is likely to be performed
 - if the fees are for work that has already been carried out, the time spent by each level of staff on each of the major tasks
 - if the fees are for work that is yet to be carried out, whether the fees are capped.

If you need more information about fees than is provided in the external administrator's report, you should let them know before the meeting at which fees will be voted on.

What can you do if you think the fees are not reasonable?

If you do not think the fees being claimed are reasonable, you should raise your concerns with the external administrator. It is your decision whether to vote in favour of, or against, a resolution to approve fees.

Generally, if fees are approved by a creditors' committee/creditors and you wish to challenge this decision, you may apply to the court and ask the court to review the fees. Special rules apply to court liquidations.

You may wish to seek your own legal advice if you are considering applying for a court review of the fees.

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APPROVING FEES: A GUIDE FOR CREDITORS

Reimbursement of out-of-pocket costs

An external administrator should be very careful incurring costs that must be paid from the external administration—as careful as if they were dealing with their own money. Their report on fees should also include information on the out-of-pocket costs of the external administration.

If you have questions about any of these costs, you should ask the external administrator and, if necessary, bring it up at a creditors' committee/creditors' meeting. If you are still concerned, you have the right to ask the court to review the costs.

Queries and complaints

You should first raise any queries or complaints with the external administrator. If this fails to resolve your concerns, including any concerns about their conduct, you can lodge a complaint with ASIC at www.asic.gov.au/complain, or write to:

ASIC Complaints
PO Box 9149
TRARALGON VIC 3844

ASIC will usually not become involved in matters of commercial judgement by an external administrator. Complaints against companies and their officers can also be made to ASIC. For other enquiries, email ASIC through infoline@asic.gov.au, or call ASIC's Infoline on 1300 300 630 for the cost of a local call.

To find out more

For an explanation of terms used in this information sheet, see ASIC's information sheet INFO 41 *Insolvency: a glossary of terms*. For more on external administration, see ASIC's related information sheets at www.asic.gov.au/insolvencyinfosheets:

- 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*

These are also available from the Insolvency Practitioners Association (IPA) website at www.ipaa.com.au. The IPA website also contains the IPA's Code of Professional Practice for Insolvency Professionals, which applies to IPA members.

Appendix 17 – Receipts and Payments

Receipts and Payments

Summary of Receipts and Payment

- The Voluntary Administrators have included a summary of the Receipts and Payments which have been incurred for the period from 24 August 2017 to 12 March 2018.

SHPL - Receipts and Payments for the period 24 August 2017 to 12 March 2018

Description	\$
Receipts	
Bank Charges Reversed	75.03
Cash at Bank at Appointment	3,424,796.56
GST Refund	3,757.00
Interest Income	19,299.41
Insurance Premium Refund	29,907.64
Pre-Appointment Debtors Recovered	5,036.20
Total Receipts	3,482,871.84
Payments	
Bank Charges	(90.04)
ASIC Annual Review Fee	(1,455.00)
ASX Account Fees	(20.74)
Bank Charges	(150.00)
IT Expense	(3,722.67)
Legal Fees & Disbursements	(400,539.44)
Subcontractors	(29,761.95)
Sundry Expenses	(2,735.52)
Virtual Data Room Fees	(13,200.00)
Settlement of TCI Claim	(1,100,000.00)
Professional Fees for completion of MSW & SDUK Sales	(479,055.72)
Sundry Expenses	(17,522.34)
Total Payments	(2,048,253.42)
Cash at Bank as at 12 March 2018	1,434,618.42

SGL - Receipts and Payments for the period 24 August 2017 to 12 March 2018

Description	\$
Receipts	
Bank Charges Reversed	75.32
Cash at Bank at Appointment	172,095.48
GST Refund	12,977.00
Interest Income	13,665.20
Proceeds from Sale of Magic Seaweed	1,572,829.14
Proceeds from Sale of SurfDome Shop Ltd	8,389,261.75
Other Income	2,111.68
PAYG Withheld	271,882.00
Reimbursement of Legal Fees	82,970.20
Total Receipts	10,517,867.77
Payments	
Advertising	(30,316.00)
Allowances: Car Park	(259.61)
Allowances: Mileage	(177.41)
Allowances: Mobile Phone	(2,146.12)
ASIC Annual Review Fee	(577.00)
Bank Charges	(169.22)
Corporate Domains	(1,289.64)
Foreign Agent Charges	(4,497.76)
IT Services	(68,149.50)
Legal Fees & Disbursements	(719,377.45)
Loans to Subsidiaries	(3,840,930.40)
PAYG Paid	(210,907.00)
Payroll Tax	(34,866.24)
Staff reimbursement	(8,496.89)
Stamp Duty	(232.29)
Subcontractors	(19,933.55)
Sundry Expenses	(724.26)
Superannuation	(71,431.42)
Trademark Maintenance	(5,918.21)
Wages & Salaries	(765,304.16)
WorkCover Premium	(4,645.96)
Total Payments	(5,790,350.09)
Cash at Bank as at 12 March 2018	4,727,517.68

Appendix 18 – Remuneration Reports

16 MARCH 2018

REMUNERATION APPROVAL REPORT

SURFSTITCH GROUP LIMITED
(ADMINISTRATORS APPOINTED)
ACN 602 288 004

Introduction

Information included in report

This remuneration approval report provides you with the information the *Corporations Act 2001* (the **Act**) and the Code of Professional Practice published by the Australian Restructuring Insolvency and Turnaround Association (**ARITA**) requires creditors to receive, to make an informed decision regarding the approval of our remuneration and the cost of our internal disbursements, for undertaking the Administration of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004.

This report has the following information included:

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Part 1: Declaration

We, John Park, Quentin Olde and Joseph Hansell of FTI Consulting have undertaken a proper assessment of the claims for remuneration and payment of our internal disbursements for the appointment as Administrators of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004 in accordance with the law and applicable professional standards. We are satisfied the remuneration claimed is in respect of necessary work, properly performed, or to be properly performed, in the conduct of this appointment and further, the disbursements claimed are necessary and proper.

Part 2: Executive Summary

We advise the total remuneration for this appointment for the period 24 August 2017 to 11 March 2018 was \$933,007 plus GST.

Remuneration claimed is summarised below in Table 1 below:

Table 1: Current claim for remuneration

Period	Report Reference	Amount plus GST
Voluntary Administration		
Resolution 1: 24 August 2017 to 11 March 2018 (inclusive)	Schedule 1	\$933,007.00
Resolution 2: 12 March 2018 to 3 April 2018*	Schedule 2	\$194,000.00
Resolution 3: 4 April 2018 to the Execution of the DOCA (inclusive)*	Schedule 3	\$59,000.00
Total		\$1,186,007.00
Deed of Company Arrangement		
Resolution 4: the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust (inclusive)	Schedule 4	\$498,000.00
Total		\$498,000.00
Liquidation		
Resolution 5: 4 April 2018 to the Conclusion of the Liquidation*	Schedule 5	\$598,000.00
Total		\$598,000.00

* Approval for the future remuneration sought is based on an estimate of the work necessary to complete the administration. Should additional work beyond what is contemplated be necessary, further approval may be sought from creditors. If a lesser amount is incurred, we will limit our remuneration to the lesser amount.

Internal disbursements currently claimed are summarised below in Table 2.

Table 2: Current claim for internal disbursements

Period	Report Reference	Amount plus GST
Voluntary Administration		
Resolution 6: 24 August 2017 to 11 March 2018 (inclusive)	Table 10	\$2,125.91
Resolution 7: 12 March 2018 to the 4 April 2018 (inclusive)	Table 11	\$1,000.00
Total		\$3,125.91
Deed of Company Arrangement/Creditors Trust (if applicable)		
Resolution 8: the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust (inclusive)	Table 11	\$2,000.00
Total		\$2,000.00
Liquidation		
Resolution 9: 4 April 2018 to the Conclusion of the Liquidation (inclusive)*	Table 11	\$2,000.00
Total		\$2,000.00

* Approval for the future remuneration sought is based on an estimate of the work necessary to complete the administration. Should additional work beyond what is contemplated be necessary, further approval may be sought from creditors. If a lesser amount is incurred, we will limit our remuneration to the lesser amount.

Please refer to report section references detailed in Table 1 and Table 2 for full details of the calculation and composition of the remuneration and internal disbursement approval sought.

Part 3: Remuneration

Remuneration claim resolutions

We will be seeking approval of the following resolutions to approve our remuneration. Details to support these resolutions are shown immediately below the resolutions and in the schedules to this report.

Resolution 1: Remuneration from 24 August 2017 to 11 March 2018 (inclusive)

The remuneration of the Voluntary Administrators of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004 for the period 24 August 2017 to 11 March 2018 (inclusive) be calculated on a time basis at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017 (Corporate Finance & Restructuring and Strategic Communications), and is determined and approved for payment in the amount of \$933,007.00 plus GST and the Voluntary Administrators can draw the remuneration.

Resolution 2: Remuneration from 12 March 2018 to 3 April 2018 (inclusive)

The remuneration of the Voluntary Administrators of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004 for the period 12 March 2018 to 3 April 2018 (inclusive) be calculated on a time basis at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017 (Corporate Finance & Restructuring and Strategic Communications), and is determined and approved for payment in the amount of \$194,000.00 plus GST and the Voluntary Administrators can draw the remuneration.

Resolution 3: Remuneration from 4 April 2018 to the Execution of the DOCA (inclusive) under a Deed of Company Arrangement Scenario

The future remuneration of the Voluntary Administrators of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004 for the period from 4 April 2018 to the Execution of the DOCA (inclusive) is determined and approved for payment at a sum equal to the cost of time incurred by the Voluntary Administrators and staff of FTI Consulting, calculated at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017 (Corporate Finance & Restructuring and Strategic Communications), up to an initial capped amount of \$59,000.00 plus GST, and the Voluntary Administrators can draw the remuneration as required.

Resolution 4: Remuneration from the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust (inclusive) under a Deed of Company Arrangement/Creditors Trust (if applicable) Scenario

The future remuneration of the Deed Administrators (or Trustees) of SurfStitch Group Limited (Subject to Deed of Company Arrangement) ACN 602 288 004 from the Execution of the DOCA to the Conclusion of the DOCA (or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust) (inclusive) is determined and approved for payment at a sum equal to the cost of time incurred by the Deed Administrators (or Trustees as applicable) and staff of FTI Consulting, calculated at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017, up to an initial capped amount of \$498,000.00 plus GST, and the Deed Administrators (or Trustees if applicable) can draw the remuneration as required.

Resolution 5: Remuneration from 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Liquidation Scenario

The future remuneration of the Liquidators of SurfStitch Group Limited (In Liquidation) ACN 602 288 004 for the period from 4 April 2018 to the Conclusion of the Liquidation (inclusive) is determined and approved for payment at a sum equal to the cost of time incurred by the Liquidators and staff of FTI Consulting, calculated at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017 (Corporate Finance & Restructuring and Strategic Communications), up to an initial capped amount of \$598,000.00 plus GST, and the Liquidators can draw the remuneration as required.

Remuneration is calculated in accordance with the hourly rates applicable to the grades or classifications set out in the FTI Consulting Schedules of Standard Rates (Corporate Finance & Restructuring and Strategic Communications) which appear at Schedule 6 to this report.

At this stage, based on the information presently available to me, we consider it may not be necessary to convene a further meeting of creditors to seek further approval from creditors. However, the position may change depending on the progress of the external administration and the issues which may arise.

Details to support resolutions

The basis of calculating the remuneration claims are summarised below and the details of the major tasks performed and the costs associated with each of those major tasks are contained in Schedule 1 and Schedule 2.

Resolutions 1: Remuneration from 24 August 2017 to 11 March 2018 (inclusive)

Tables 3, 4 and 5 on the following pages sets out time charged to each major task area by staff members working on the Administration for the period 24 August 2017 to 11 March 2018 (inclusive) which is the basis of the Resolution 1. More detailed descriptions of the tasks performed within each task area, matching the amounts below, are contained in Schedule 1.

Table 3: Time charged to each major task area

Employee	Position	Rate/hour excl GST \$	Total actual hours	Total (excl GST) \$	Task Area					
					Assets \$	Creditors \$	Employees \$	Trade On \$	Investigation \$	Administration \$
John Park	Senior Managing Director	625.00	177.80	111,125.00	35,062.50	5,687.50	-	48,375.00	-	22,000.00
Quentin Olde	Senior Managing Director	625.00	149.80	93,625.00	69,187.50	-	-	-	-	24,437.50
Joseph Hansell	Managing Director	580.00	156.10	90,538.00	1,682.00	20,184.00	1,334.00	36,134.00	11,600.00	19,604.00
Matthew Glennon	Senior Director	570.00	167.30	95,361.00	3,705.00	44,802.00	-	684.00	9,804.00	36,366.00
Preeti Inchody	Senior Director	570.00	112.50	64,125.00	63,840.00	-	-	285.00	-	-
Simon Skelton	Senior Director	570.00	237.90	135,603.00	22,173.00	29,583.00	-	26,334.00	51,927.00	5,586.00
Asjadi Hone	Director	510.00	54.20	27,642.00	1,989.00	-	-	714.00	-	24,939.00
Jonathan Chee	Senior Consultant 2	440.00	2.10	924.00	352.00	-	-	-	-	572.00
Paris Parasadi	Senior Consultant 2	440.00	196.30	86,372.00	220.00	49,280.00	704.00	3,300.00	9,240.00	23,628.00
Jack Teague	Senior Consultant 1	380.00	305.90	116,242.00	41,420.00	11,704.00	2,584.00	36,252.00	1,976.00	22,306.00
Deirdre Bryant	Consultant 2	360.00	17.10	6,156.00	-	-	-	-	-	6,156.00
Carly Young	Associate 1	260.00	4.80	1,248.00	-	1,248.00	-	-	-	-
Samantha Rieger	Associate 1	260.00	4.00	1,040.00	-	-	-	-	-	1,040.00
Carly Drew	Administration 2	185.00	9.70	1,794.50	-	388.50	-	-	-	1,406.00
Simone Meany	Administration 2	185.00	5.90	1,091.50	-	-	-	-	-	1,091.50
Tanya Kratz	Administration 2	185.00	5.40	999.00	-	-	-	-	-	999.00
Total			1,606.80	833,886.00	239,631.00	162,877.00	4,622.00	152,078.00	84,547.00	190,131.00
GST				83,388.60						
Total (including GST)				917,274.60						
Average hourly rate (excluding GST)				519.0	543.0	502.6	432.0	521.0	547.2	494.7

The below tables sets out time charged (table 4) and the work performed (table 5) by other non-insolvency professional services provided by the firm for the period 24 August 2017 to 11 March 2018 (inclusive). These figures in table 4 below, along with the figures in table 3, are both included in Resolution 1.

Table 4: Time charged FTI Strategic Communications

Employee	Position	Rate/hour excl GST \$	Total actual hours	Total (excl GST) \$
Andrew Stokes	Managing Director	580.00	5.00	2,900.00
Stuart Carson	Senior Director	570.00	115.09	65,599.25
Samantha Magnusson	Senior Director	570.00	2.00	1,140.00
Megan Moore	Senior Consultant	440.00	39.54	17,398.36
Matthew Mortimer	Associate	250.00	48.33	12,083.39
Total			209.96	99,121.00
GST				9,912.10
Total (including GST)				109,033.10
Average hourly rate (excluding GST)				472.1

Table 5: Major tasks undertaken by FTI Strategic Communications

Description of Tasks Undertaken

Activities

- Responding to enquiries from local, national and international media
- Preparing messaging and briefing materials for media
- Briefing internal team on media engagement
- Daily media monitoring and reporting

Communications Support for specific announcements/ matters

- Future of the Australian business
- Role of Chief Executive Officer
- Settlement with TCI Group
- Extension of Convening Period
- Resignation of Company Secretary
- Sale of SurfDome Shop Limited
- Sale of Magicseaweed
- Sale of STAB Magazine
- Appointment of Administrators

Resolution 2: Remuneration from 12 March 2018 to 3 April 2018 (inclusive)

The below table sets out the expected costs for the major tasks likely to be performed by the Voluntary Administrators and their staff for the period 12 March 2018 to 3 April 2018 (inclusive) which is the basis of the Resolution 2 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 2.

Table 6: Expected costs for the major tasks from 12 March 2018 to 3 April 2018 (inclusive)

\$	Total	Task Area						
		Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)	194,000	-	154,000	-	20,000	-	-	20,000
GST	19,400	-	15,400	-	2,000	-	-	2,000
Total (incl GST)	213,400	-	169,400	-	22,000	-	-	22,000

Resolution 3: Remuneration from 4 April 2018 to the Execution of the DOCA (inclusive) under a Deed of Company Arrangement Scenario

The below table sets out the expected costs for the major tasks likely to be performed by the Voluntary Administrators and their staff for the period 4 April 2018 to the Execution of the DOCA (inclusive) which is the basis of the Resolution 3 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 3.

Table 7: Expected costs for the major tasks from 3 April 2018 to the Execution of the DOCA (inclusive)

\$	Total	Task Area						
		Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)	59,000	-	40,000	-	9,000	-	-	10,000
GST	5,900	-	4,000	-	900	-	-	1,000
Total (incl GST)	64,900	-	44,000	-	9,900	-	-	11,000

Resolution 4: Remuneration from the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to Conclusion of the Creditors Trust (inclusive) under a Deed of Company Arrangement/Creditors Trust (if applicable) Scenario

The below table sets out the expected costs for the major tasks likely to be performed by the Deed Administrators (and Creditors Trustee if applicable) and their staff from the Execution of the DOCA which is the basis of the Resolution 4 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 4.

Table 8: Expected costs for the major tasks from the Execution of the DOCA to the Conclusion of the DOCA or, if a Creditors Trust is created, to the Conclusion of the Creditors Trust (inclusive)

	\$	Total	Task Area						
			Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)		498,000	-	130,000	-	-	-	250,000	118,000
GST		49,800	-	13,000	-	-	-	25,000	11,800
Total (incl GST)		547,800	-	143,000	-	-	-	275,000	129,800

Resolution 5: Remuneration from 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Liquidation Scenario

The below table sets out the expected costs for the major tasks likely to be performed by the Liquidators and their staff for the period 4 April 2018 to the Conclusion of the Liquidation (inclusive) which is the basis of the Resolution 5 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 5.

Table 9: Expected costs for the major tasks from 4 April 2018 to the Conclusion of the Liquidation (inclusive)

	\$	Total	Task Area						
			Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)		598,000	20,000	130,000	0	100,000	90,000	150,000	108,000
GST		59,800	2,000	13,000	0	10,000	9,000	15,000	10,800
Total (incl GST)		657,800	22,000	143,000	0	110,000	99,000	165,000	118,800

Total remuneration reconciliation

The total aggregate amount of the remuneration for which approval is sought differs to the estimate of remuneration provided in our Report to Creditors dated 25 August 2017 which estimated a cost in undertaking the Administrations of SurfStitch Group Limited and SurfStitch Holdings Pty Limited to be between \$500,000.00 to \$600,000.00 (exclusive of GST). The increase in remuneration beyond the initial estimate is primarily due to the following matters:

- Reviewing the numerous litigation proceedings commenced prior to the appointment of Administrators.
- Conducting a review and assessment of the shareholder class actions, including undertaking a process to identify potential Group Member Claimants.
- Liaising with legal representatives and class action litigation funders with respect to the claims, the restructure and attempting to negotiate a consensual outcome.
- Providing assistance to obtain working capital funding to sustain the main operational subsidiary, SurfStitch Australia, during its key Q4FY17 and start of Q1FY18 trading period.
- Applying to Court for an order pursuant to Section 600H of the Act to allow Group Member Claimants to vote at the Second Meeting of Creditors, having regard to their real economic interest in the outcome of the Administration. N.B. The Court deferred hearing of this application from December 2017 to 19 February 2018.
- Negotiating with the TCI Parties and reaching a settlement on a no admission of liability basis.
- Liaising with statutory bodies with respect to the deferral of reporting obligations and the annual general meeting.
- Taking over and finalising the sales of overseas subsidiary businesses commenced prior to our appointment.
- Undertaking an expression of interest campaign for the recapitalisation of the Group by way of a Deed of Company Arrangement.
- Conducting due diligence and negotiating with interest parties, including reviewing key features of the two DOCA proposals and against a Liquidation scenario.

Likely impact on dividends

The Act sets the order for payment of claims against the Company and it provides for remuneration of the Administrators and Liquidators to be paid in priority to other claims. This ensures when there are sufficient funds, the Administrators (or Liquidators if relevant) receive payment for the work done to recover assets, investigate the Company's affairs, report to creditors and ASIC and distribute any available funds. Even if creditors approve remuneration, this does not guarantee we will be paid, as we are only paid if sufficient assets are recovered.

Any dividend to creditors will also be impacted by the amount of assets we are able to recover and the amount of creditor claims admitted to participate in any dividend, including any claims by priority creditors such as employees.

Based on:

- Realisations to date;
- Estimated future realisations;
- Our estimated remuneration to complete the Administration, Deed Administration, Creditors Trust, Liquidation (as appropriate); and
- The estimated total of creditor claims based on the company's records, claims lodged and our investigations.

Upon the finalisation of the DOCA or Liquidation (if applicable), we estimate a dividend of 100 cents in the dollar will be paid to priority and ordinary unsecured creditors of the Company. For Group Member Claimants we estimate an equivalent return of between 4 cents and 28 cents, subject to the outcome of the Second Meeting of Creditors, the quantum of claims admissible and the value of the shares at the relevant times (if applicable). Please refer to **Section 10** and **Appendix 14** of the 439A Report to Creditors for further details.

Part 4: Disbursements

Explanatory note on 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** - these are recovered at cost. Examples of externally provided non-professional costs are travel, accommodation and search fees.
- **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. The recovery of these costs must be on a reasonable commercial basis. Details of the basis of recovery of each of these costs is discussed below.

Internal disbursements not charged at cost must be approved by creditors before we can draw the cost of those disbursements from this external administration.

Creditor approval is not required in relation to externally provided professional and non-professional costs or disbursements charged at cost. Where payments to third parties have been made from the bank account of the external administration, those payments are disclosed in the summary of receipts and payments. Creditors have the right to question the incurring of the disbursements and can challenge disbursements in Court.

Internal disbursement claim resolutions

We will be seeking approval of the following resolutions with respect to our internal disbursements. Details to support these resolutions are shown immediately below the resolutions and in the schedules to this report.

Resolution 6: Internal disbursements from 24 August 2017 to 11 March 2018 (inclusive)

The cost of the internal disbursements of the Administrators of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004 for the period 24 August 2017 to 11 March 2018 (inclusive) be calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates and is determined and approved for payment in the amount of \$2,125.91 plus GST and the Administrators can draw the cost of those internal disbursements.

Resolution 7: Internal disbursements from 12 March 2018 to 4 April 2018 (inclusive)

The cost of the future internal disbursements of the Administrators of SurfStitch Group Limited (Administrators Appointed) ACN 602 288 004 for the period from 12 March 2018 to 4 April 2018 (inclusive) is determined and approved for payment at a sum equal to the cost of the internal disbursements incurred by the Administrators and staff of FTI Consulting, calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates, up to an initial capped amount of \$1,000.00 plus GST, and the Administrators can draw the cost of those internal disbursements as required.

Resolution 8: Internal disbursements from the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust (inclusive) under a DOCA and Creditors Trust Scenario

The cost of the future internal disbursements of the Deed Administrators (or Trustees) of SurfStitch Group Limited (Subject to Deed of Company Arrangement) ACN 602 288 004 for the period from the Execution of the DOCA to the Conclusion of the DOCA (or Creditors Trust if applicable) (inclusive) is determined and approved for payment at a sum equal to the cost of the internal disbursements incurred by the Deed Administrators (or Trustees) and staff of FTI Consulting, calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates, up to an initial capped amount of \$2,000.00 plus GST, and the Deed Administrators (or Trustees) can draw the cost of those internal disbursements as required.

Resolution 9: Internal disbursements from 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Liquidation Scenario

The cost of the future internal disbursements of the Liquidators of SurfStitch Group Limited (In Liquidation) ACN 602 288 004 for the period from 4 April 2018 to the Conclusion of the Liquidation (inclusive) is determined and approved for payment at a sum equal to the cost of the internal disbursements incurred by the Administrators and staff of FTI Consulting, calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates, up to an initial capped amount of \$2,000.00 plus GST, and the Liquidators can draw the cost of those internal disbursements as required.

Details to support resolutions

Resolutions 6: Internal disbursements from 24 August 2017 to 11 March 2018 (inclusive)

The cost of the internal disbursements which are the subject of this resolution have been calculated in the manner shown in the respective sections of Table 10 on the following page.

Table 10: Cost of disbursements claimed

Disbursements claimed	Basis of charge Excl GST \$	Amount Excl GST \$
Internal Disbursements		
Miscellaneous Expenses	At cost	148.48
Printing & photocopying	\$0.09 per unit of time charged	444.78
Postage	At cost	405.69
Staff Travel - Mileage	Cents per km Method ATO Rates)	316.4
Staff Travel - Parking	At cost	316.36
Telephone	\$0.10 per unit of time charged	494.2
Sub-Total		\$2,125.91
Externally provided non-professional services		
Accommodation	At cost	6,005.65
Car Hire	At cost	544.86
Meal Expenses	At cost	3,657.20
Search Fees	At cost	64.45
Staff Travel - Airfares	At cost	26,882.48
Staff Travel - Public Transport	At cost	121.23
Staff Travel - Taxi	At cost	2,318.32
Subscription Fees	At cost	184.65
Teleconferencing Facilities	At cost	1,146.40
Sub-Total		\$40,925.24
Total (Excluding GST)		\$43,051.15
GST		\$4,305.12
Total (Including GST)		\$47,356.27

Future basis of internal disbursements

Future internal disbursements will be charged to the administration based on the Schedule of Brisbane FTI Consulting Internal Disbursement Rates as shown in Table 11 below.

Table 11: Schedule of FTI Consulting Internal Disbursement Rates

Disbursement	Note	Rate (exclusive of GST) \$
Advertising and search fees		At cost
Courier		At cost
Postage		At cost
Printing and photocopying	Per page	0.50 (black and white) 1.00 (colour)
Facsimile	Per page	1.50 (local) 4.50 (international)
Storage and storage recall		At cost
Staff travel – mileage	ATO rates	Cents per km method
Other staff travel/out of pockets		At cost

Part 5: Summary of Receipts and Payments

A summary of receipts and payments to and from the bank accounts for the Administration for 24 August 2017 to 12 March 2018 appears at **Appendix 16** to the Section 439A Report to Creditors which accompanies this report.

If any large or exceptional receipts and payments are received or made after this report is prepared but before the meeting at which this claim for remuneration will be considered, additional information will be provided at the meeting.

Part 6: Queries

If you have any queries or require any further information concerning our claim for remuneration please contact Paris Parasadi on (07) 3225 4927 or via email on Paris.Parasadi@fticonsulting.com.

You can also access information which may assist you on the following websites:

- ARITA at www.arita.com.au/creditors
- ASIC at www.asic.gov.au (search for “insolvency information sheets”).

Yours faithfully

SurfStitch Group Limited (Administrators Appointed)



Joseph Ronald Hansell
Joint and Several Administrator

Schedule 1: Table of Major Tasks for Resolution 1 Remuneration Approval

Table 12 provides a description of the work undertaken in each major task area for the period 24 August 2017 to 11 March 2018 (inclusive).

Table 12: Work undertaken for the period 24 August 2017 to 11 March 2018 (inclusive)

Task Area	General Description	Includes
Assets 441.3 hours \$239,631.00	DOCA proposals for sale of subsidiary business and relisting of SGL	<ul style="list-style-type: none"> ▪ Work related to DOCA proposal that contemplated sale of the subsidiary business ▪ Conducting due diligence on interested parties that contemplate sale via a DOCA ▪ Work related to DOCA proposal that contemplates relisting of SGL ▪ Preparation of outcome statements for SGL for transactions of subsidiaries ▪ Liaising with solicitors regarding sale options and strategy ▪ Meeting with interested parties ▪ Internal meetings to discuss/review offers received and how they relate to SGL ▪ Undertaking Management meetings of subsidiaries in the context of any sale of DOCA proposal
	Cash and bank accounts	<ul style="list-style-type: none"> ▪ Communications with Banks to freeze accounts and transfer funds ▪ Liaising with WBC regarding release of Company Funds ▪ Collection and correspondence with other pre-appointment debtors
Creditors 324.1 hours \$162,877.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintain and monitor creditor email inbox ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor	<ul style="list-style-type: none"> ▪ Conduct and review searches of the PPSR ▪ Liaising with various parties registered on the PPSR ▪ Review security documents and communications with the secured creditor ▪ Procure releases of PPSR registrations

	<p>Creditor reports & circulars</p>	<ul style="list-style-type: none"> ▪ Preparing and issuing Statutory Report for the first meeting of creditors ▪ Providing DIRRI and Initial Advice on Remuneration to creditors ▪ Preparing and issuing circulars to creditors to communicate significant developments in the Administration ▪ Preparing and issuing circulars to creditors in accordance with Court Orders ▪ Preparing Section 439A Report to creditors ▪ Communicate progress and outcome of various court applications to creditors and stakeholders
	<p>Processing proofs of debt (PODs) not relating to a dividend</p>	<ul style="list-style-type: none"> ▪ Receipting and reviewing POD's received for the first meeting of creditors ▪ Corresponding with OSR and ATO regarding POD ▪ Maintaining POD register
	<p>Deed of Company Arrangement (DOCA)</p>	<ul style="list-style-type: none"> ▪ Negotiating terms of DOCA ▪ Obtaining legal advice on DOCA terms ▪ Liaising with parties in relation to DOCA proposals ▪ Providing information to parties preparing DOCA proposals ▪ Reviewing DOCA proposals and internal meetings to discuss DOCA proposals ▪ Meetings with DOCA proponents
	<p>Creditor Meetings</p>	<ul style="list-style-type: none"> ▪ Preparation of meeting notices, proxies and advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda and other documents for meeting ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from first meeting of creditors
	<p>Group Member Claimants</p>	<ul style="list-style-type: none"> ▪ Liaising with legal advisors on Group Member Claimants and considering class action claims ▪ Communications with Group Member Claimants ▪ Communications with class action funders ▪ Liaising with Link Market Services with regards to addressing Group Member Claimants' enquiries and setting up Questions and Answers sheet

		<ul style="list-style-type: none"> ▪ Reviewing response reports from Link Market Services
	Shareholder enquiries	<ul style="list-style-type: none"> ▪ Obtaining current and past shareholder registers ▪ Communications with shareholders ▪ Monitor shareholder enquiry email inbox ▪ Preparing and lodging announcements with the ASX
<p>Employees</p> <p>10.7 hours</p> <p>\$4,622.00</p>	Employee enquiries	<ul style="list-style-type: none"> ▪ Enquiries from employee from subsidiaries ▪ Reviewing outstanding Super at SGL and considering the priorities under section 556 of the Act
<p>Trade On</p> <p>291.9 hours</p> <p>\$152,078.00</p>	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with suppliers ▪ Communications with managers and key staff ▪ Attendances on site ▪ Communications with OSR concerning payroll tax issues ▪ Preparing monthly payroll tax submissions
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Entering receipts and payments into accounting system ▪ Preparation and authorisation of receipt and payment vouchers ▪ Reconciling receipts and payments
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Reviewing operating subsidiaries cash flow and operations to monitor performance ▪ Meetings with key management of the subsidiaries ▪ Preparation of cash flow monitoring spreadsheet ▪ Analysis of trading performance (profit/loss) ▪ Meetings to discuss trading performance of subsidiaries
<p>Investigation</p> <p>154.5 hours</p> <p>\$84,547.00</p>	Conducting investigation into affairs of the Company	<ul style="list-style-type: none"> ▪ Collecting company books and records ▪ Reviewing books and records ▪ Investigating and understanding company nature and history ▪ Obtaining and reviewing statutory searches ▪ Investigating the solvency of the Company ▪ General investigations into transactions prior to Administration

		<ul style="list-style-type: none"> ▪ Investigations into potential offences of directors and officers ▪ Communications with directors and/or officers concerning company information ▪ Preparation of investigation file
	Litigation Proceedings	<ul style="list-style-type: none"> ▪ Reviewing legal files and Company records for proceedings relating to the TCI Group ▪ Liaising with legal advisors and settling TCI Group proceedings ▪ Meetings with representatives of the TCI Group ▪ Settling TCI Group proceedings on a no admissions basis ▪ Reviewing legal files relating to the class actions ▪ Meetings and communications with class action funders ▪ Reviewing and analysing data relating to shareholdings at various periods regarding the Group Member Claimants
<p>Administration</p> <p>384.3 hours</p> <p>\$190,131.00</p>	Appointment	<ul style="list-style-type: none"> ▪ Communications with IT consulting firm concerning data imaging ▪ Liaise with IT consulting forum to secure and back up computer and accounting data. ▪ Communications with Company officers (including RATA packs) ▪ Advising third parties of appointment including ATO, OSR and utilities ▪ Notification to various parties advising of appointment ▪ Attend meeting with Directors and key staff regarding appointment and strategy ▪ Setting up email inbox for creditor and shareholder enquiries
	DOCA Proposals	<ul style="list-style-type: none"> ▪ Preparation and commencement of an expression of interest process for the recapitalisation of the Group ▪ Liaising with interested parties with respect to the recapitalisation and relisting the Group ▪ DOCA negotiations with interest parties ▪ Receipt of DOCA proposals and review ▪ Liaising with legal advisors with respect to DOCA proposals and compliance matters

		<ul style="list-style-type: none"> ▪ Liaising and negotiating with proponents of the DOCA's to finalise terms ▪ Conducting an assessment to value the estimated returns to all classes of creditors under the DOCA proposals
	SGL Group Reporting Requirements	<ul style="list-style-type: none"> ▪ Reviewing annual reporting requirements of the Group ▪ Liaising with legal advisors with respect to deferral of financial reporting requirement of the SGL Group ▪ Application to ASIC for deferral of financial reporting requirements ▪ Notifications to the ASX as appropriate
	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file ▪ Scanning and filing of documents
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Maintaining and updating checklists
	Insurance	<ul style="list-style-type: none"> ▪ Communications with broker concerning general insurance requirements ▪ Identification of potential issues requiring attention ▪ Reviewing existing insurance policies ▪ Communications with Company's broker ▪ Communications with legal advisors in relation to coverage under previous policies
	Bank accounts	<ul style="list-style-type: none"> ▪ Opening and/or closing bank accounts ▪ Bank account reconciliations
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC ▪ General communications with ASIC
	ATO lodgements	<ul style="list-style-type: none"> ▪ Notification of appointment ▪ Preparation and submission of BAS
	Planning review	<ul style="list-style-type: none"> ▪ Internal meeting to discuss the status of the administration ▪ Ad hoc job planning for task allocation
	Storage of books and records	<ul style="list-style-type: none"> ▪ Organising and storage of book and records ▪ Dispatching and receiving books and records to/from storage

Schedule 2: Table of Major Tasks for Resolution 2 Interim Remuneration Approval

Table 13 provides a description of the work expected to be undertaken in each major task area for the period 12 March 2018 to 3 April 2018 (inclusive).

Table 13: Work expected to be undertaken for the period 12 March 2018 to 3 April 2018 (inclusive)

Task Area	General Description	Includes
Creditors \$154,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor on DOCA proposals ▪ Responding to queries raised by secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Preparation and issuing the Section 439A report to creditors
	Ordinary Creditors proofs of debt (PODs)	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Adjudication on ordinary claims for voting purposes
	Group Member Claimants	<ul style="list-style-type: none"> ▪ Receipt of Group Member Claimants POD's in the lead up to the Second Meeting of Creditors ▪ Internal meetings on Group Member Claims received ▪ Liaising with funders with respect to Group Member claims ▪ Adjudication of Group Member Claimants ▪ Liaising with legal advisors on Group Member claims, as required
	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Communications with stakeholders concerning proposed DOCA ▪ Liaising with DOCA proponents in the lead up to the Second Meeting ▪ Preparation of DOCA's ▪ Review and assess any additional material received after issuance of the Section 439A Report.
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation of meeting notices, proxies and advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda and other documents for meeting

		<ul style="list-style-type: none"> ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from meeting
	Shareholder enquiries	<ul style="list-style-type: none"> ▪ Communications with shareholders ▪ Responding to shareholder claims
Trade On \$20,000.00	Trade On Management	<ul style="list-style-type: none"> ▪ Preparation and authorisation of receipt vouchers ▪ Preparation and authorisation of payment vouchers
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Accounting procedures including entry of payments and receipts
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's cash flows ▪ Reviewing subsidiary cash flows ▪ Meetings to discuss trading performance
Administration \$20,000.00	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
	Planning review	<ul style="list-style-type: none"> ▪ Ad hoc meetings concerning the status of the administration

Schedule 3: Table of Major Tasks for Resolution 3 Remuneration Approval under a DOCA Scenario

Table 14 provides a description of the work expected to be undertaken in each major task area for the period 4 April 2018 to the Execution of the DOCA (inclusive) under a Deed of Company Arrangement Scenario.

Table 14: Work expected to be undertaken for the period 4 April 2018 to the Execution of the DOCA (inclusive)

Task Area	General Description	Includes
Creditors \$40,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor, as required
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Ad hoc circulars to creditors
	Processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Maintaining POD register
	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Communications with stakeholders concerning proposed DOCA ▪ Obtaining legal advice on DOCA terms ▪ Finalising and executing DOCA
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from meeting
	Shareholder enquiries	<ul style="list-style-type: none"> ▪ Communications with shareholders ▪ Responding to shareholder claims
Trade On \$9,000.00	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with managers and staff ▪ Preparation and authorisation of receipt and payment vouchers
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Accounting procedures including entry of payments and receipts
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Preparation of budgets ▪ Preparation of financial reports ▪ Analysis of trading performance (profit/loss) ▪ Meetings to discuss trading performance

Administration \$10,000.00	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
	Bank accounts	<ul style="list-style-type: none"> ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC (505, 524 etc)
	ATO lodgements	<ul style="list-style-type: none"> ▪ Preparation and submission of BAS
	Planning review	<ul style="list-style-type: none"> ▪ Weekly meeting to discuss the status of the administration ▪ Ad hoc meetings concerning the status of the administration
	Finalisation	<ul style="list-style-type: none"> ▪ Completing checklists

Schedule 4: Table of Major Tasks for Resolution 4 Future Remuneration Approval under a DOCA Scenario

Table 15 provides a description of the work expected to be undertaken in each major task area for the period from the Execution of the DOCA to the Conclusion of the DOCA or Creditors’ Trust (inclusive) under a Deed of Company Arrangement Scenario.

Table 15: Work expected to be undertaken for the period from the Execution of the DOCA (inclusive)

Task Area	General Description	Includes
Creditors \$130,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor ▪ Responding to queries raised by secured creditor ▪ Undertaking any requirements under the DOCA pertaining to the secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Interim report to creditors ▪ Ad hoc circulars to creditors
	Ordinary Creditor proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Adjudication on PODs ▪ Maintaining POD register
	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Communications with stakeholders concerning proposed DOCA ▪ Liaising with DOCA proponents ▪ Monitoring adherence to DOCA terms ▪ Attending to any matters required under the DOCA
	Group Member Claimants	<ul style="list-style-type: none"> ▪ Communication with Group Member Claimants ▪ Liaising with legal advisors with respect to Group Member Claimants ▪ Liaising with funder of class actions ▪ Receipt of claims lodged by Group Member Claimants ▪ Reviewing and maintaining a register for Group Member Claimants ▪ Communication with Group Member Claimants accepting or rejecting claim as appropriate.
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation of meeting notices, proxies and advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda and other documents for meeting

		<ul style="list-style-type: none"> ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from meeting
	Shareholder enquiries	<ul style="list-style-type: none"> ▪ Communications with shareholders ▪ Responding to shareholder claims ▪ Attendance to matters under the DOCA relating to existing shareholders
Dividend \$250,000.00	Ordinary Creditors processing proofs of debt (PODs)	<ul style="list-style-type: none"> ▪ Communications with creditors inviting them to lodge PODs ▪ Review, consideration and adjudication of PODs ▪ Maintaining POD register ▪ Communications with creditors seeking further information ▪ Advising creditors of POD adjudication
	Dividend procedures for ordinary creditors	<ul style="list-style-type: none"> ▪ Communications with creditors concerning declaration of dividend ▪ Advertising intention to declare dividend ▪ Maintaining dividend file & register ▪ Advertising of dividend declaration ▪ Paying dividend to creditors and associated correspondence
	Group Member Claimants Claim	<ul style="list-style-type: none"> ▪ Adjudicate on claims received for Group Member Claimants ▪ Liaising with legal advisors as appropriate for specific claims lodged ▪ Distributions to Group Member Claimants ▪ Dealing with shares and equity, depending on the DOCA proposal accepted on behalf of Group Member Claimants
	Existing Shareholders	<ul style="list-style-type: none"> ▪ Dealing with existing shareholders in accordance with the DOCA accepted
Administration \$118,000.00	Appointment	<ul style="list-style-type: none"> ▪ Receiving appointment documents ▪ Advising third parties of appointment including ATO, OSR and utilities
	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist

	Bank accounts	<ul style="list-style-type: none"> ▪ Opening and/or closing bank accounts ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC (505, 524 etc) ▪ General communications with ASIC
	ATO lodgements	<ul style="list-style-type: none"> ▪ Notification of appointment ▪ Preparation and submission of BAS
	Other lodgements	<ul style="list-style-type: none"> ▪ Communication with ASX concerning ASX announcements
	Planning review	<ul style="list-style-type: none"> ▪ Weekly meeting to discuss the status of the administration ▪ Ad hoc meetings concerning the status of the administration
	Finalisation	<ul style="list-style-type: none"> ▪ Communication with ATO concerning finalisation ▪ Finalising WIP ▪ Completing checklists

Schedule 5: Table of Major Tasks for Resolution 5 Future Remuneration Approval under a Liquidation Scenario

Table 16 provides a description of the work expected to be undertaken in each major task area for the period 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Deed of Company Arrangement Scenario.

Table 16: Work expected to be undertaken for the period from 4 April 2018 to the Conclusion of the Liquidation (inclusive)

Task Area	General Description	Includes
Assets \$20,000.00	Debtors	<ul style="list-style-type: none"> ▪ Lodging claim in SHPL and collating all relevant document to support claim ▪ Receipt of funds from SHPL
Creditors \$130,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor ▪ Responding to queries raised by secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Ad hoc reports & circulars to creditors
	Ordinary Creditors processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Adjudication on PODs ▪ Maintaining POD register
	Group Member Claimants	<ul style="list-style-type: none"> ▪ Communication with Group Member Claimants ▪ Liaising with legal advisors with respect to Group Member Claimants ▪ Liaising with funder of class actions ▪ Receipt of claims lodged by Group Member Claimants ▪ Reviewing and maintaining a register for Group Member Claimants ▪ Communication with Group Member Claimants accepting or rejecting claim as appropriate.
	Shareholder enquiries	<ul style="list-style-type: none"> ▪ Communications with shareholders ▪ Responding to shareholder claims
Trade On \$100,000.00	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with managers and staff ▪ Communications with OSR concerning payroll tax issues ▪ Closure of trading accounts as appropriate
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Accounting procedures including entry of payments and receipts
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Reviewing subsidiary financials and cash flows

		<ul style="list-style-type: none"> ▪ Meetings to discuss trading performance
Investigation \$90,000.00	Conducting investigation into affairs of the Company	<ul style="list-style-type: none"> ▪ Investigating specific transactions warranting investigation ▪ Communications with directors and/or officers concerning company information ▪ Preparation of investigation file
	Litigation/Recoveries	<ul style="list-style-type: none"> ▪ Identification of potential actions/recoveries ▪ Proceed with any claims (if any identified)
	Reporting to ASIC	<ul style="list-style-type: none"> ▪ Preparation of statutory investigation report ▪ Preparation of supplementary statutory investigation report ▪ Communications with ASIC concerning investigations
Dividend \$150,000.00	Processing proofs of debt (PODs)	<ul style="list-style-type: none"> ▪ Communications with creditors inviting them to lodge PODs ▪ Receiving PODs ▪ Review, consideration and adjudication of PODs ▪ Maintaining POD register ▪ Communications with creditors seeking further information ▪ Advising creditors of POD adjudication
	Dividend to ordinary creditors procedures	<ul style="list-style-type: none"> ▪ Communications with creditors concerning declaration of dividend ▪ Advertising intention to declare dividend ▪ Preparation and finalisation of dividend calculation ▪ Maintaining dividend file & register ▪ Obtaining ATO clearance to allow dividend payment ▪ Advertising of dividend declaration ▪ Paying dividend to creditors & associated correspondence
	Group Member Claimants Claim	<ul style="list-style-type: none"> ▪ Adjudicate on claims received for Group Member Claimants ▪ Liaising with legal advisors as appropriate for specific claims lodged ▪ Distributions to Group Member Claimants
Administration \$108,000.00	Appointment	<ul style="list-style-type: none"> ▪ Receiving appointment documents ▪ Communications with security firm concerning security issues ▪ Securing and backing up computer and accounting data

	<ul style="list-style-type: none"> ▪ Communications with Company officers (including RATA packs) ▪ Advising third parties of appointment including ATO, OSR and utilities
General correspondence & word processing	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
Insurance	<ul style="list-style-type: none"> ▪ Communications with broker concerning general insurance requirements ▪ Identification and resolution of specific insurance issues ▪ Reviewing policies of insurance ▪ Communications with Company's broker
Bank accounts	<ul style="list-style-type: none"> ▪ Opening and/or closing bank accounts ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements ▪ Communications concerning bank account transactions
ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC ▪ General communications with ASIC
ATO lodgements	<ul style="list-style-type: none"> ▪ Notification of appointment ▪ Preparation and submission of BAS
Other lodgements	<ul style="list-style-type: none"> ▪ Communications with Court concerning reporting obligations ▪ Communication with ASX concerning ASX announcements
Planning review	<ul style="list-style-type: none"> ▪ Weekly meeting to discuss the status of the administration ▪ Ad hoc meetings concerning the status of the administration
Storage of books and records	<ul style="list-style-type: none"> ▪ Organising and storage of book and records ▪ Dispatching and receiving books and records to/from storage
Finalisation	<ul style="list-style-type: none"> ▪ Communication with ATO concerning finalisation ▪ Cancelling ABN/GST/PAYG registration ▪ Finalising WIP ▪ Completing checklists

Schedule 6: FTI Consulting Schedules of Rates

FTI Consulting – Corporate Finance & Restructuring Standard Rates effective 1 March 2017 (excluding GST)		
Typical classification	All Australian Offices \$/hour	General guide to classifications
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.

The FTI Consulting Standard Rates above apply to the Corporate Finance & Restructuring practice and are subject to review at 1 January each year.

FTI Consulting – Strategic Communications Standard Rates effective 1 March 2017 (excluding GST)		
Typical classification	\$/hour	General guide to classifications
Senior Managing Director	625	Specialist skills and extensive experience in all forms of strategic communications. Alternatively, has proven leadership experience in business or industry, bringing specialist expertise and knowledge to corporate communications.
Managing Director	580	Extensive experience in managing large, complex engagements at a very senior level over many years. Alternatively, has proven leadership experience in business or industry, bringing specialist expertise and knowledge to corporate communications.
Senior Director	570	Extensive experience in managing large, complex engagements at a very senior level over many years. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Director	510	Significant experience across all types of communications. Strong technical and commercial skills. Has primary conduct of small to large projects, controlling a team of professionals. Answerable to the senior director, but otherwise responsible for all aspects of the project. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Senior Consultant	440	Assists with the planning and control of small to medium projects. May have the conduct of minor projects. Can supervise staff. Has experience performing more difficult tasks on larger projects.
Consultant	315	Qualified consultant with several years' experience. Required to assist with day-to-day tasks under the supervision of senior staff.
Associate	250	Typically, a university undergraduate or graduate. Required to assist with day-to-day tasks under the supervision of senior staff.
Administration	155	Has appropriate skills and experience to support professional staff in an administrative capacity.

The FTI Consulting Standard Rates above apply to the Strategic Communications practice and are subject to review at 1 January each year.



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About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring. More information can be found at www.fticonsulting.com.

16 MARCH 2018

REMUNERATION APPROVAL REPORT

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

Introduction

Information included in report

This remuneration approval report provides you with the information the *Corporations Act 2001* (the **Act**) and the Code of Professional Practice published by the Australian Restructuring Insolvency and Turnaround Association (**ARITA**) requires creditors to receive, to make an informed decision regarding the approval of our remuneration and the cost of our internal disbursements, for undertaking the Administration of SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603.

This report has the following information included:

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Part 1: Declaration

We, John Park, Quentin Olde and Joseph Hansell of FTI Consulting have undertaken a proper assessment of the claims for remuneration and payment of our internal disbursements for the appointment as Administrators of SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 in accordance with the law and applicable professional standards. We are satisfied the remuneration claimed is in respect of necessary work, properly performed, or to be properly performed, in the conduct of this appointment and further, the disbursements claimed are necessary and proper.

Part 2: Executive Summary

We advise the total remuneration for this appointment for the period 24 August 2017 to 11 March 2018 is \$1,872,293.50 plus GST.

Remuneration claimed is summarised below in Table 1 below:

Table 1: Current claim for remuneration

Period	Report Reference	Amount plus GST
Voluntary Administration		
Resolution 1: 24 August 2017 to 11 March 2018 (inclusive)	Schedule 1	\$1,872,293.50
Resolution 2: 12 March 2018 to 3 April 2018*	Schedule 2	\$175,000.00
Resolution 3: 4 April 2018 to the Execution of the DOCA (inclusive)*	Schedule 3	\$50,000.00
Total		\$2,097,293.50
Deed of Company Arrangement		
Resolution 4: the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, the Conclusion of the Creditors Trust (inclusive)*	Schedule 4	\$98,000.00
Total		\$98,000.00
Liquidation		
Resolution 5: 4 April 2018 to the Conclusion of the Liquidation*	Schedule 5	\$198,000.00
Total		\$198,000.00

* Approval for the future remuneration sought is based on an estimate of the work necessary to complete the administration. Should additional work beyond what is contemplated be necessary, further approval may be sought from creditors. If a lesser amount is incurred, we will limit our remuneration to the lesser amount.

Internal disbursements currently claimed are summarised below in Table 2.

Table 2: Current claim for internal disbursements

Period	Report Reference	Amount plus GST
Voluntary Administration		
Resolution 6: 24 August 2017 to 11 March 2018 (inclusive)	Table 10	\$3,914.92
Resolution 7: 12 March 2018 to 4 April 2018 (inclusive)	Table 11	\$1,000.00
Total		\$4,914.92
Deed of Company Arrangement		
Resolution 8: the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust (inclusive)*	Table 11	\$2,000.00
Total		\$2,000.00
Liquidation		
Resolution 10: 4 April 2018 to the Conclusion of the Liquidation (inclusive)*	Table 11	\$2,000.00
Total		\$2,000.00

* Approval for the future internal disbursements sought is based on an estimate of the internal disbursements necessary to complete the administration. Should additional internal disbursements beyond what is contemplated be necessary, further approval may be sought from creditors.

Please refer to report section references detailed in Table 1 and Table 2 for full details of the calculation and composition of the remuneration and internal disbursement approval sought.

Part 3: Remuneration

Remuneration claim resolutions

We will be seeking approval of the following resolutions to approve our remuneration. Details to support these resolutions are shown immediately below the resolutions and in the schedules to this report.

Resolution 1: Remuneration from 24 August 2017 to 11 March 2018 (inclusive)

The remuneration of the SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 for the period 24 August 2017 to 11 March 2018 (inclusive) be calculated on a time basis at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017 (incorporating Australian and US rates), and is determined and approved for payment in the amount of \$1,872,293.50 plus GST and the Voluntary Administrators can draw the remuneration.

Resolution 2: Remuneration from 12 March 2018 to 3 April 2018 (inclusive)

The remuneration of the Voluntary Administrators of SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 for the period 12 March 2018 to 3 April 2018 (inclusive) be calculated on a time basis at the hourly rates set out in the Schedule of FTI Consulting Standard Rates effective 1 March 2017, and is determined and approved for payment in the amount of \$175,000.00 plus GST and the Voluntary Administrators can draw the remuneration.

Resolution 3: Remuneration from 4 April 2018 to the Execution of the DOCA (inclusive) under a Deed of Company Arrangement Scenario

The future remuneration of the Voluntary Administrators of SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 for the period from 4 April 2018 to the Execution of the DOCA (inclusive) is determined and approved for payment at a sum equal to the cost of time incurred by the Voluntary Administrators and staff of FTI Consulting, calculated at the hourly rates set out in the Schedule of FTI Consulting Standard Rates effective 1 March 2017, up to an initial capped amount of \$50,000.00 plus GST, and the Voluntary Administrators can draw the remuneration as required.

Resolution 4: Remuneration from the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors Trust (inclusive) under a Deed of Company Arrangement Scenario

The future remuneration of the Deed Administrators (or Trustee) of SurfStitch Holdings Pty Limited (Subject to Deed of Company Arrangement) ACN 601 114 603 from the Execution of the DOCA to the Conclusion of the DOCA (or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust) (inclusive) is determined and approved for payment at a sum equal to the cost of time incurred by the Deed Administrators (or Trustees as applicable) and staff of FTI Consulting, calculated at the hourly rates set out in the Schedules of FTI Consulting Standard Rates effective 1 March 2017, up to an initial capped amount of \$98,000.00 plus GST, and the Deed Administrators (or Trustees if applicable) can draw the remuneration as required.

Resolution 5: Remuneration from 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Liquidation Scenario

The future remuneration of the Liquidators of SurfStitch Holdings Pty Limited (In Liquidation) ACN 601 114 603 for the period from 4 April 2018 to the Conclusion of the Liquidation (inclusive) is determined and approved for payment at a sum equal to the cost of time incurred by the Liquidators and staff of FTI Consulting, calculated at the hourly rates set out in the schedules of FTI Consulting Standard Rates effective 1 March 2017, up to an initial capped amount of \$198,000.00 plus GST, and the Liquidators can draw the remuneration as required.

Remuneration is calculated in accordance with the hourly rates applicable to the grades or classifications set out in the FTI Consulting Schedule of Standard Rates which appear at Schedule 6 to this report.

At this stage, based on the information presently available to me, we consider it may not be necessary to convene a further meeting of creditors to seek further approval from creditors. However, the position may change depending on the progress of the external administration and the issues which may arise.

Details to support resolutions

The basis of calculating the remuneration claims are summarised below and the details of the major tasks performed and the costs associated with each of those major tasks are contained in Schedule 1 and Schedule 2.

Resolution 1: Remuneration from 24 August 2017 to 11 March 2018 (inclusive)

Table 3 and 4 on the following pages sets out time charged to each major task area by staff members working on the Administration for the period 24 August 2017 to 11 March 2018 (inclusive) which is the basis of the Resolution 1 claim. Included in the remuneration resolution is time charged from an FTI Consulting US Senior Managing Director for work undertaken on subsidiaries US business, details of the time charged is included in Table 4. More detailed descriptions of the tasks performed within each task area, matching the amounts below, are contained in Schedule 1.

Table 3: Time charged to each major task area

Employee	Position	Rate/hour excl GST \$	Total actual hours	Total (excl GST) \$	Task Area					
					Assets \$	Creditors \$	Employees \$	Trade On \$	Investigation \$	Administration \$
John Park	Senior Managing Director	625.00	72.60	45,375.00	12,312.50	3,812.50	3,562.50	8,625.00	750.00	16,312.50
Quentin Olde	Senior Managing Director	625.00	268.00	167,500.00	139,437.50	-	-	-	-	28,062.50
Joseph Hansell	Managing Director	580.00	284.00	164,720.00	71,398.00	12,528.00	7,598.00	50,054.00	-	23,142.00
Matthew Glennon	Senior Director	570.00	255.30	145,521.00	14,079.00	46,797.00	24,795.00	27,588.00	8,322.00	23,940.00
Patrick O'Brien	Senior Director	570.00	105.90	60,363.00	58,140.00	-	-	2,223.00	-	-
Preeti Inchody	Senior Director	570.00	338.70	193,059.00	190,779.00	-	-	2,280.00	-	-
Simon Skelton	Senior Director	570.00	386.10	220,077.00	137,313.00	16,188.00	2,223.00	42,237.00	15,846.00	6,270.00
Asjadi Hone	Director	510.00	76.90	39,219.00	37,383.00	-	-	1,224.00	-	612.00
Declan McDonnell	Director	510.00	34.30	17,493.00	17,493.00	-	-	-	-	-
Mark Hellwege	Director	510.00	100.20	51,102.00	50,949.00	-	-	-	-	153.00
Jonathan Chee	Senior Consultant 2	440.00	1.70	748.00	-	-	-	176.00	-	572.00
Paris Parasadi	Senior Consultant 2	440.00	228.90	100,716.00	-	42,416.00	13,860.00	6,952.00	9,196.00	28,292.00
Jack Teague	Senior Consultant 1	380.00	492.90	187,302.00	37,658.00	228.00	8,284.00	131,404.00	-	9,728.00
Deirdre Bryant	Consultant 2	360.00	31.40	11,304.00	-	-	-	-	-	11,304.00
Michael Perrin	Consultant 2	360.00	159.00	57,240.00	-	-	-	49,896.00	-	7,344.00
Neil Dempster	Consultant 2	360.00	154.70	55,692.00	54,792.00	-	-	-	-	900.00
Alan Issaia	Consultant 1	315.00	744.50	234,517.50	231,178.50	-	-	-	-	3,339.00
Asantewaa Asima	Associate 2	280.00	12.60	3,528.00	3,528.00	-	-	-	-	-
Carly Young	Associate 1	260.00	2.20	572.00	-	572.00	-	-	-	-
Henry Lister	Associate 1	260.00	11.00	2,860.00	-	2,808.00	-	-	-	52.00
Samantha Rieger	Associate 1	260.00	405.40	105,404.00	103,974.00	312.00	-	-	-	1,118.00
Carly Drew	Administration 2	185.00	8.10	1,498.50	-	111.00	-	-	-	1,387.50
Tanya Kratz	Administration 2	185.00	4.10	758.50	-	-	-	-	-	758.50
Total			4,178.50	1,866,569.50	1,160,414.50	125,772.50	60,322.50	322,659.00	34,114.00	163,287.00
GST				186,656.95						
Total (including GST)				2,053,226.45						
Average hourly rate (excluding GST)				446.7	434.1	503.1	504.8	439.9	528.9	483.7

The below tables sets out time charged from a FTI Consulting US Senior Managing Director for work undertaken in the US from 24 August 2017 to 11 March 2018 (inclusive). This time detailed in table 4 below, along with the figures in table 3, are both included in Resolution 1.

Table 4: Time charged by FTI US

Employee	Position	Rate/hour excl GST \$	Total actual hours	Total (excl GST) \$	Task Area	
					Assets \$	Employees \$
Tamara D McGrath	Senior Managing Director	1,060.00	5.40	5,724.00	4,982.00	742.00
Total			5.40	5,724.00	4,982.00	742.00
GST				572.40		
Total (including GST)				6,296.40		
Average hourly rate (excluding GST)				1,060.0	1,060.0	1,060.0

Table 5: Major tasks undertaken by FTI US

Description of Tasks Undertaken
<p>Assets</p> <ul style="list-style-type: none"> Analyse wind down forecast for US Swell operations. Meet with R. Beas (Swell) regarding wind down forecast and considerations. Meet with potential purchaser regarding potential acquisition of Magic Seaweed. Evaluate options to improve wind down result. <p>Employees</p> <ul style="list-style-type: none"> Research directors of SurfStitch USA and Rolling Youth

The FTI Consulting US rates are included in Schedule 6. The US rate was converted to Australian dollars at the time of the entries at a rate of approximately 79.24 US cents to the Australian dollar.

Resolution 2: Remuneration from 12 March 2018 to 3 April 2018 (inclusive)

The below table sets out the expected costs for the major tasks likely to be performed by the Voluntary Administrators and their staff for the period 12 March 2018 to 3 April 2018 (inclusive) which is the basis of the Resolution 2 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 2.

Table 6: Expected costs for the major tasks from 12 March 2018 to 3 April 2018 (inclusive)

\$	Total	Task Area						
		Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)	175,000	-	50,000	10,000	75,000	-	-	40,000
GST	17,500	-	5,000	1,000	7,500	-	-	4,000
Total (incl GST)	192,500	-	55,000	11,000	82,500	-	-	44,000

Resolution 3: Remuneration from 4 April 2018 to the Execution of the DOCA (inclusive) under a Deed of Company Arrangement Scenario

The below table sets out the expected costs for the major tasks likely to be performed by the Voluntary Administrators and their staff for the period 4 April 2018 to the Execution of the DOCA (inclusive) which is the basis of the Resolution 3 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 3.

Table 7: Expected costs for the major tasks from 4 April 2018 to the Execution of the DOCA (inclusive)

\$	Total	Task Area						
		Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)	50,000	-	17,500	5,000	15,000	-	-	12,500
GST	5,000	-	1,750	500	1,500	-	-	1,250
Total (incl GST)	55,000	-	19,250	5,500	16,500	-	-	13,750

Resolution 4: Remuneration from the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors Trust (inclusive) under a Deed of Company Arrangement/Creditors Trust (if applicable) Scenario

The below table sets out the expected costs for the major tasks likely to be performed by the Deed Administrators (and Creditors Trustee if applicable) and their staff from the Execution of the DOCA which is the basis of the Resolution 4 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 4.

Table 8: Expected costs for the major tasks from the Execution of the DOCA to the Conclusion of the DOCA or Creditors' Trust (inclusive)

\$	Total	Task Area						
		Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)	98,000	-	18,000	20,000	-	-	30,000	30,000
GST	9,800	-	1,800	2,000	-	-	3,000	3,000
Total (incl GST)	107,800	-	19,800	22,000	-	-	33,000	33,000

Resolution 5: Remuneration from 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Liquidation Scenario

The below table sets out the expected costs for the major tasks likely to be performed by the Liquidators and their staff for the period 4 April 2018 to the Conclusion of the Liquidation (inclusive) which is the basis of the Resolution 5 claim. More detailed descriptions of the tasks likely to be performed within each task area, matching the amounts below, are contained in Schedule 5.

Table 9: Expected costs for the major tasks from 4 April 2018 to the Conclusion of the Liquidation (inclusive)

\$	Total	Task Area						
		Assets	Creditors	Employees	Trade on	Investigation	Dividend	Administration
Total (est)	198,000	50,000	18,000	20,000	20,000	30,000	30,000	30,000
GST	19,800	5,000	1,800	2,000	2,000	3,000	3,000	3,000
Total (incl GST)	217,800	55,000	19,800	22,000	22,000	33,000	33,000	33,000

Total remuneration reconciliation

The total aggregate amount of the remuneration for which approval is sought differs to the estimate of remuneration provided in our Report to Creditors dated 25 August 2017 which estimated a cost in undertaking the Administrations of SurfStitch Holdings Pty Limited and SurfStitch Group Limited to be between \$500,000.00 to \$600,000.00 (exclusive of GST). The increase in remuneration beyond the initial estimate is primarily due to the following matters:

- Reviewing the numerous litigation proceedings commenced prior to the appointment of Administrators.
- Conducting a review and assessment of the shareholder class actions, including undertaking a process to identify potential Group Member Claimants.
- Liaising with legal representatives and class action litigation funders with respect to the claims, the restructure and attempting to negotiate a consensual outcome.
- Providing assistance to obtain working capital funding to sustain the main operational subsidiary, SurfStitch Australia, during its key Q4FY17 and start of Q1FY18 trading period.
- Applying to Court for an order pursuant to Section 600H of the Act to allow Group Member Claimants to vote at the Second Meeting of Creditors, having regard to their real economic interest in the outcome of the Administration. N.B. The Court deferred the hearing of this application from December 2017 to 19 February 2018.
- Negotiating with the TCI Parties and reaching a settlement on a no admission of liability basis.
- Liaising with statutory bodies with respect to the deferral of reporting obligations and the annual general meeting.
- Taking over and finalising the sales of overseas subsidiary businesses commenced prior to our appointment.
- Undertaking an expression of interest campaign for the recapitalisation of the Group by way of a Deed of Company Arrangement.
- Conducting due diligence and negotiating with interest parties, including reviewing key features of the two DOCA proposals and against a Liquidation scenario.

Likely impact on dividends

The Act sets the order for payment of claims against the Company and it provides for remuneration of the Administrators to be paid in priority to other claims. This ensures when there are sufficient funds, the Administrators receive payment for the work done to recover assets, investigate the Company's affairs, report to creditors and ASIC and distribute any available funds. Even if creditors approve remuneration, this does not guarantee we will be paid, as we are only paid if sufficient assets are recovered.

Any dividend to creditors will also be impacted by the amount of assets we are able to recover and the amount of creditor claims admitted to participate in any dividend, including any claims by priority creditors such as employees.

Based on:

- Realisations to date;
- Estimated future realisations;
- Our estimated remuneration to complete the Administration, Deed Administration, Creditors Trust, Liquidation (as appropriate); and
- The estimated total of creditor claims based on the company's records and claims lodged now.

Upon the finalisation of the DOCA or Liquidation (if applicable), we estimate a dividend of 100 cents in the dollar will be paid to priority creditors. The estimated return to unsecured creditors of the Company is dependent on the outcome of the Second Meeting, under the DOCA proposals, unsecured creditors will receive 100 cents in the dollar; under a Liquidation scenario, unsecured creditors will receive between 3 cents and 7 cents in the dollar. Please refer to **Section 10** and **Appendix 14** of the 439A Report to Creditors for further details.

Part 4: Disbursements

Explanatory note on 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** - these are recovered at cost. Examples of externally provided non-professional costs are travel, accommodation and search fees.
- **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. The recovery of these costs must be on a reasonable commercial basis. Details of the basis of recovery of each of these costs is discussed below.

Internal disbursements not charged at cost must be approved by creditors before we can draw the cost of those disbursements from this external administration.

Creditor approval is not required in relation to externally provided professional and non-professional costs or disbursements charged at cost. Where payments to third parties have been made from the bank account of the external administration, those payments are disclosed in the summary of receipts and payments. Creditors have the right to question the incurring of the disbursements and can challenge disbursements in Court.

Internal disbursement claim resolutions

We will be seeking approval of the following resolutions with respect to our internal disbursements. Details to support these resolutions are shown immediately below the resolutions and in the schedules to this report.

Resolution 6: Internal disbursements from 24 August 2017 to 11 March 2018 (inclusive)

The cost of the internal disbursements of the Administrators of SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 for the period 24 August 2017 to 11 March 2018 (inclusive) be calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates and is determined and approved for payment in the amount of \$3,914.92 plus GST and the Administrators can draw the cost of those internal disbursements.

Resolution 7: Internal disbursements from 12 March 2018 to the 4 April 2018 (inclusive)

The cost of the future internal disbursements of the Administrators of SurfStitch Holdings Pty Limited (Administrators Appointed) ACN 601 114 603 for the period from 12 March 2018 to 4 April 2018 (inclusive) is determined and approved for payment at a sum equal to the cost of the internal disbursements incurred by the Administrators and staff of FTI Consulting, calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates, up to an initial capped amount of \$1,000.00 plus GST, and the Administrators can draw the cost of those internal disbursements as required.

Resolution 8: Internal disbursements from the Execution of the DOCA to the Conclusion of the DOCA, or if a Creditors Trust is created, to the Conclusion of the Creditors' Trust (inclusive) under a DOCA and Creditors Trust Scenario

The cost of the future internal disbursements of the Deed Administrators (or Trustees) of SurfStitch Holdings Pty Limited (Subject to Deed of Company Arrangement) ACN 601 114 603 for the period from the Execution of the DOCA to the Conclusion of the DOCA (or Creditors Trust if applicable) (inclusive) is determined and approved for payment at a sum equal to the cost of the internal disbursements incurred by the Deed Administrators (of Trustees) and staff of FTI Consulting, calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates, up to an initial capped amount of \$2,000.00 plus GST, and the Deed Administrators (or Trustees) can draw the cost of those internal disbursements as required.

Resolution 9: Internal disbursements from 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Liquidation Scenario

The cost of the future internal disbursements of the Liquidators of SurfStitch Holdings Pty Limited (In Liquidation) ACN 601 114 603 for the period from 4 April 2018 to the Conclusion of the Liquidation (inclusive) is determined and approved for payment at a sum equal to the cost of the internal disbursements incurred by the Administrators and staff of FTI Consulting, calculated at the rates set out in the Schedule of FTI Consulting Internal Disbursement Rates, up to an initial capped amount of \$2,000.00 plus GST, and the Liquidators can draw the cost of those internal disbursements as required.

Details to support resolutions**Resolution 6: Internal disbursements from 24 August 2017 to 11 March 2018 (inclusive)**

The cost of the internal disbursements which are the subject of this resolution have been calculated in the manner shown in the respective sections of Table 9 on the following page.

Table 10: Cost of disbursements claimed

Disbursements claimed	Basis of charge Excl GST \$	Amount Excl GST \$
Internal Disbursements		
Miscellaneous Expenses	At cost	159.25
Printing & photocopying	\$0.09 per unit of time charged	681.39
Postage	At cost	183.33
Staff Travel - Mileage	Cents per km Method ATO Rates)	2,015.85
Staff Travel - Parking	At cost	118.00
Telephone	\$0.10 per unit of time charged	757.10
Sub-Total		\$3,914.92
Externally provided non-professional services		
Accommodation	At cost	8,850.70
Meal Expenses	At cost	2,676.90
Search Fees	At cost	1,003.92
Staff Travel - Airfares	At cost	9,392.75
Staff Travel - Public Transport	At cost	65.24
Staff Travel - Taxi	At cost	5,051.10
Teleconferencing Facilities	At cost	162.23
Sub-Total		\$27,202.84
Total (Excluding GST)		\$31,117.76
GST		\$3,111.78
Total (Including GST)		\$34,229.54

Future basis of internal disbursements

Future internal disbursements will be charged to the administration based on the Schedule of Brisbane FTI Consulting Internal Disbursement Rates as shown in Table 11 below.

Table 11: Schedule of FTI Consulting Internal Disbursement Rates

Disbursement	Note	Rate (exclusive of GST) \$
Advertising and search fees		At cost
Courier		At cost
Postage		At cost
Printing and photocopying	Per page	0.50 (black and white) 1.00 (colour)
Facsimile	Per page	1.50 (local) 4.50 (international)
Storage and storage recall		At cost
Staff travel – mileage	ATO rates	Cents per km method
Other staff travel/out of pockets		At cost

Part 5: Summary of Receipts and Payments

A summary of receipts and payments to and from the bank account for the Liquidation for 24 August 2017 to 12 March 2018 appears at **Appendix 16** to the Section 439A Report to Creditors which accompanies this report.

If any large or exceptional receipts and payments are received or made after this report is prepared but before the meeting at which this claim for remuneration will be considered, additional information will be provided at the meeting.

Part 6: Queries

If you have any queries or require any further information concerning our claim for remuneration please contact Paris Parasadi on (07) 3225 4927 or via email on Paris.Parasadi@fticonsulting.com.

You can also access information which may assist you on the following websites:

- ARITA at www.arita.com.au/creditors
- ASIC at www.asic.gov.au (search for “insolvency information sheets”).

Yours faithfully

SurfStitch Holdings Pty Limited (Administrators Appointed)



Joseph Ronald Hansell
Joint and Several Administrator

Schedule 1: Table of Major Tasks for Resolution 1 Remuneration Approval

Table 12 provides a description of the work undertaken in each major task area for the period 24 August 2017 to 11 March 2018 (inclusive).

Table 12: Work undertaken for the period 24 August 2017 to 11 March 2018 (inclusive)

Task Area	General Description	Includes
<p>Assets</p> <p>2,673.4 hours</p> <p>\$1,160,414.50</p>	<p>Sale of subsidiary businesses Surfdomo and Magicseaweed</p>	<ul style="list-style-type: none"> ▪ Reviewing information memorandums for Surfdomo and Magicseaweed ▪ Meeting with financial advisors regarding status of sale processes at appointment ▪ Review of data room documents ▪ Attended various meetings in the UK and US for the sale of the Magicseaweed and Surfdomo business ▪ Reviewing projections of the businesses ▪ Determining the funding needs of the businesses ▪ Meetings with management of the businesses ▪ Liaising with solicitors regarding sale documentation ▪ Meeting with interested parties ▪ Liaising with eventual purchaser on the transactions and transitional arrangements ▪ Providing information to interested parties ▪ Negotiations with eventual purchaser ▪ Internal meetings to discuss/review offers received ▪ Completion of transactions for Surfdomo and Magicseaweed and dealing with post completion matters ▪ Undertaking the wind down process the Magicseaweed UK entity.
	<p>DOCA Proposals for sale of subsidiary business</p>	<ul style="list-style-type: none"> ▪ Work related to DOCA proposals that contemplated sale of the subsidiary business ▪ Conducting due diligence on interested parties that contemplate sale via a DOCA ▪ Preparation of outcome statements for SHPL for transactions of subsidiaries ▪ Liaising with solicitors regarding sale options and strategy ▪ Meeting with interested parties

		<ul style="list-style-type: none"> ▪ Internal meetings to discuss/review offers received and how they relate to SHPL ▪ Undertaking Management meetings of subsidiaries in the context of any sale of DOCA proposal
	Cash and bank accounts	<ul style="list-style-type: none"> ▪ Communications with Banks to freeze accounts and transfer funds
	Other assets	<ul style="list-style-type: none"> ▪ Identification of other assets ▪ Reviewing trademarks and managing trademark applications on foot ▪ Review of STAB Magazine projections and funding ▪ Completion of STAB Magazine transaction ▪ Post completion matters
Creditors 250 hours \$125,772.50	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintain and monitor creditor email inbox ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Conduct and review searches of the PPSR ▪ Liaising with various parties registered on the PPSR ▪ Removing security interests from the PPSR ▪ Review security documents and communications with the secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Preparing and issuing Statutory Report for the first meeting of creditors ▪ Providing DIRRI and Initial Advice on Remuneration to creditors ▪ Preparing and issuing circulars to creditors to communicate significant developments in the Administration. ▪ Preparing and issuing circulars to creditors in accordance with Court Orders. ▪ Preparing Section 439A Report to creditors ▪ Communicate progress and outcome of various court applications to creditors and stakeholders
	Processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Receipting and reviewing POD's received for the first meeting of creditors ▪ Corresponding with OSR and ATO regarding POD ▪ Maintaining POD register

	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Negotiating terms of DOCA ▪ Obtaining legal advice on DOCA terms ▪ Liaising with parties in relation to DOCA proposals ▪ Providing information to parties preparing DOCA proposals ▪ Reviewing DOCA proposals and internal meetings to discuss DOCA proposals
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation of meeting notices, proxies and advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda and other documents for meeting ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from first meeting of creditors
Employees 119.5 hours \$60,322.50	Employee enquiries	<ul style="list-style-type: none"> ▪ Liaising with HR in respect of communication with employees of related entities ▪ Receiving and dealing with employee enquiries ▪ Maintaining register of employee enquiries ▪ Responding to employee enquiries by telephone, email, facsimile and post ▪ Communications with employees concerning entitlements and options ▪ Effecting redundancies of SHPL staff ▪ Negotiating transfer of SHPL staff to operating subsidiaries
	Calculating entitlements	<ul style="list-style-type: none"> ▪ Reviewing employee files and company books and records ▪ Reviewing employee contracts ▪ Reconciling superannuation accounts and entitlement balances ▪ Determining employee entitlements
Trade On 733.5 hours \$322,659.00	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with suppliers ▪ Communications with managers and key staff ▪ Attendances on site ▪ Authorising purchase orders ▪ Maintaining register of purchase orders ▪ Liaising with payroll team regarding preparation of payroll

		<ul style="list-style-type: none"> ▪ Calculating post appointment entitlements and updating internal registers ▪ Communications with superannuation funds concerning contributions and other issues ▪ Communications with OSR concerning payroll tax issues ▪ Preparing monthly payroll tax submissions
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Entering receipts and payments into accounting system ▪ Preparation and authorisation of receipt vouchers ▪ Preparation and authorisation of payment vouchers ▪ Reconciling receipts and payments
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Reviewing operating subsidiaries cash flow and operations to monitor performance ▪ Assisting with debt raisings for operational subsidiaries ▪ Meetings with key management of the subsidiaries relating ▪ Preparation of cash flow monitoring spreadsheet ▪ Analysis of trading performance (profit/loss) ▪ Meetings to discuss trading performance of subsidiaries ▪ Reviewing and assisting subsidiaries with funding requirements
<p>Investigation</p> <p>64.5 hours</p> <p>\$34,114.00</p>	Conducting investigation into affairs of the Company	<ul style="list-style-type: none"> ▪ Collecting company books and records ▪ Reviewing books and records ▪ Investigating and understanding company nature and history ▪ Obtaining and reviewing statutory searches ▪ Investigating the solvency of the Company ▪ General investigations into transactions prior to Administration ▪ Investigations into potential offences of directors and officers ▪ Communications with directors and/or officers concerning company information ▪ Review of intercompany loan accounts and the collectability

		<ul style="list-style-type: none"> ▪ Preparation of investigation file
	Litigation/Recoveries	<ul style="list-style-type: none"> ▪ Reviewing legal files and Company records for proceedings relating to the TCI Group ▪ Liaising with legal advisors and settling TCI Group proceedings ▪ Provide supplementary information to solicitors to support various court applications
<p>Administration</p> <p>337.60 hours</p> <p>\$163,287.00</p>	Appointment	<ul style="list-style-type: none"> ▪ Communications with IT consulting firm concerning data imaging ▪ Liaise with IT consulting forum to secure and back up computer and accounting data. ▪ Communications with Company officers (including RATA packs) ▪ Advising third parties of appointment including ATO, OSR and utilities ▪ Notification to various parties advising of appointment ▪ Attend meeting with Directors and key staff regarding appointment and strategy ▪ Setting up email inbox for creditor and shareholder enquiries
	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file ▪ Scanning and filing of documents
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist ▪ Maintaining and updating checklists
	Insurance	<ul style="list-style-type: none"> ▪ Communications with broker concerning general insurance requirements ▪ Identification of potential issues requiring attention ▪ Reviewing existing insurance policies ▪ Communications with Company's broker
	Bank accounts	<ul style="list-style-type: none"> ▪ Opening and/or closing bank accounts ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements

		<ul style="list-style-type: none"> ▪ Communications concerning bank account transactions
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC ▪ General communications with ASIC
	ATO lodgements	<ul style="list-style-type: none"> ▪ Notification of appointment ▪ Preparation and submission of BAS
	Other lodgements	<ul style="list-style-type: none"> ▪ Communications with Court concerning reporting obligations ▪ Communication with ASX concerning ASX announcements ▪ Communications with other regulatory bodies
	Planning review	<ul style="list-style-type: none"> ▪ Internal meeting to discuss the status of the administration ▪ Ad hoc job planning for task allocation
	Storage of books and records	<ul style="list-style-type: none"> ▪ Organising and storage of book and records ▪ Dispatching and receiving books and records to/from storage

Schedule 2: Table of Major Tasks for Resolution 2 Interim Remuneration Approval

Table 13 provides a description of the work expected to be undertaken in each major task area for the period 12 March 2018 to 3 April 2018 (inclusive).

Table 13: Work expected to be undertaken for the period 12 March 2018 to 3 April 2018 (inclusive)

Task Area	General Description	Includes
Creditors \$50,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor ▪ Responding to queries raised by secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Preparation and issuing the Section 439A report to creditors
	Processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Adjudication on ordinary claims for voting purposes
	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Communications with stakeholders concerning proposed DOCA ▪ Liaising with DOCA proponents in the lead up to the Second Meeting ▪ Review and assess any additional material received after issuance of the Section 439A Report
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation of meeting notices, proxies and advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda and other documents for meeting ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from meeting
Employees \$10,000.00	Employee communications	<ul style="list-style-type: none"> ▪ Communications with employees on the DOCA proposals ▪ Communications with employees regarding the Second Meeting
Trade On	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with suppliers ▪ Authorising purchase orders ▪ Preparation and authorisation of receipt vouchers

\$75,000.00		<ul style="list-style-type: none"> ▪ Preparation and authorisation of payment vouchers ▪ Communications with OSR concerning payroll tax issues
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Accounting procedures including entry of payments and receipts
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Preparation of budgets ▪ Meetings to discuss trading performance ▪ Reviewing and assisting subsidiary with restructure plan ▪ Monitoring cash flow of the subsidiary and consider position
Administration \$40,000.00	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
	Planning review	<ul style="list-style-type: none"> ▪ Weekly meeting to discuss the status of the administration ▪ Ad hoc meetings concerning the status of the administration

Schedule 3: Table of Major Tasks for Resolution 3 Remuneration Approval under a DOCA Scenario

Table 14 provides a description of the work expected to be undertaken in each major task area for the period 4 April 2018 to the Execution of the DOCA (inclusive) under a Deed of Company Arrangement Scenario.

Table 14: Work expected to be undertaken for the period 4 April 2018 to the Execution of the DOCA (inclusive)

Task Area	General Description	Includes
Creditors \$17,500.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor ▪ Responding to queries raised by secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Ad hoc circulars to creditors
	Processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Maintaining POD register
	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Communications with stakeholders concerning proposed DOCA ▪ Obtaining legal advice on DOCA terms ▪ Finalising and executing DOCA
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from meeting
Employees \$5,000.00	Employee enquiries	<ul style="list-style-type: none"> ▪ Receiving employee enquiries ▪ Maintaining register of employee enquiries ▪ Responding to employee enquiries by telephone, email, facsimile and post ▪ Communications with employees concerning entitlements and options
Trade On \$15,000.00	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with managers and staff ▪ Authorising purchase orders ▪ Maintaining register of purchase orders ▪ Preparation and authorisation of receipt and payment vouchers ▪ Communications with superannuation funds concerning contributions and other issues ▪ Communications with OSR concerning payroll tax issues

	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Accounting procedures including entry of payments and receipts
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Preparation of budgets ▪ Preparation of financial reports ▪ Analysis of trading performance (profit/loss) ▪ Meetings to discuss trading performance
Administration \$12,500.00	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
	Bank accounts	<ul style="list-style-type: none"> ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC
	ATO lodgements	<ul style="list-style-type: none"> ▪ Preparation and submission of BAS
	Planning review	<ul style="list-style-type: none"> ▪ Ad hoc meetings concerning the status of the administration
	Finalisation	<ul style="list-style-type: none"> ▪ Completing checklists

Schedule 4: Table of Major Tasks for Resolution 4 Future Remuneration Approval under a DOCA Scenario

Table 15 provides a description of the work expected to be undertaken in each major task area for the period from the Execution of the DOCA to the Conclusion of the DOCA or Creditors’ Trust (inclusive) under a Deed of Company Arrangement Scenario.

Table 15: Work expected to be undertaken for the period from the Execution of the DOCA to the Conclusion of the DOCA or Creditors’ Trust (inclusive)

Task Area	General Description	Includes
Creditors \$18,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor ▪ Responding to queries raised by secured creditor ▪ Undertaking any requirements under the DOCA pertaining to the secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Interim report to creditors ▪ Ad hoc circulars to creditors
	Processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Adjudication on PODs ▪ Maintaining POD register
	Deed of Company Arrangement (DOCA)	<ul style="list-style-type: none"> ▪ Communications with stakeholders concerning proposed DOCA ▪ Liaising with DOCA proponents ▪ Monitoring adherence to DOCA terms ▪ Attending to any matters required under the DOCA
	Creditor Meetings	<ul style="list-style-type: none"> ▪ Preparation of meeting notices, proxies and advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda and other documents for meeting ▪ Preparation & lodgement of meeting minutes with ASIC ▪ Responding to queries arising from meeting
Employees \$20,000.00	Employee enquiries	<ul style="list-style-type: none"> ▪ Receiving employee enquiries ▪ Maintaining register of employee enquiries ▪ Responding to employee enquiries by telephone, email, facsimile and post ▪ Communications with employees concerning entitlements and options

		<ul style="list-style-type: none"> ▪ Communications with employees concerning disputed entitlements
	Calculating entitlements	<ul style="list-style-type: none"> ▪ Reviewing employee files and company books and records ▪ Reconciling superannuation accounts and entitlement balances ▪ Determining employee entitlements
	Employee dividend	<ul style="list-style-type: none"> ▪ Communications with employees ▪ Communications with ATO concerning SGC proof of debt ▪ Calculating dividend rate ▪ Preparing dividend file ▪ Receiving PODs ▪ Adjudicating on PODs ▪ Preparing for distribution ▪ Preparation and distribution of payment summaries ▪ Remitting PAYG to the ATO
Dividend \$30,000.00	Processing proofs of debt (PODs)	<ul style="list-style-type: none"> ▪ Communications with creditors inviting them to lodge PODs ▪ Receiving PODs ▪ Review, consideration and adjudication of PODs ▪ Maintaining POD register ▪ Communications with creditors seeking further information ▪ Advising creditors of POD adjudication

	Dividend procedures	<ul style="list-style-type: none"> ▪ Communications with creditors concerning declaration of dividend ▪ Advertising intention to declare dividend ▪ Maintaining dividend file & register ▪ Advertising of dividend declaration ▪ Paying dividend to creditors and associated correspondence
Administration \$30,000.00	Appointment	<ul style="list-style-type: none"> ▪ Receiving appointment documents ▪ Advising third parties of appointment including ATO, OSR and utilities
	General	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
	Bank accounts	<ul style="list-style-type: none"> ▪ Opening and/or closing bank accounts ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC (505, 524 etc) ▪ General communications with ASIC
	ATO lodgements	<ul style="list-style-type: none"> ▪ Notification of appointment ▪ Preparation and submission of BAS
	Other lodgements	<ul style="list-style-type: none"> ▪ Communication with ASX concerning ASX announcements
	Planning review	<ul style="list-style-type: none"> ▪ Weekly meeting to discuss the status of the administration ▪ Ad hoc meetings concerning the status of the administration
	Finalisation	<ul style="list-style-type: none"> ▪ Communication with ATO concerning finalisation ▪ Finalising WIP ▪ Completing checklists

Schedule 5: Table of Major Tasks for Resolutions 5 Future Remuneration Approval under a Liquidation Scenario

Table 16 provides a description of the work expected to be undertaken in each major task area for the period 4 April 2018 to the Conclusion of the Liquidation (inclusive) under a Deed of Company Arrangement Scenario.

Table 16: Work expected to be undertaken for the period from 4 April 2018 to the Conclusion of the Liquidation (inclusive)

Task Area	General Description	Includes
Assets \$50,000.00	Sale of subsidiary business or wind down of its operations	<ul style="list-style-type: none"> ▪ Considering options for the sale or wind down of the subsidiary business ▪ Liaising with interested parties ▪ Meetings with key management of subsidiaries to assess position ▪ Internal meetings to discuss/review offers received
	Debtors	<ul style="list-style-type: none"> ▪ Reviewing and related party loans for claims
	Other assets	<ul style="list-style-type: none"> ▪ Consider options with respect to sale of any trademarks of IP ▪ Negotiating with potential purchasers
Creditors \$18,000.00	Creditor enquiries	<ul style="list-style-type: none"> ▪ Receiving creditor enquiries ▪ Maintaining register of creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Secured Creditor Reporting	<ul style="list-style-type: none"> ▪ Reporting to secured creditor ▪ Responding to queries raised by secured creditor
	Creditor reports & circulars	<ul style="list-style-type: none"> ▪ Ad hoc reports & circulars to creditors
	Processing proofs of debt (PODs) not relating to a dividend	<ul style="list-style-type: none"> ▪ Issuing, receiving and filing PODs ▪ Adjudication on PODs ▪ Maintaining POD register
Employees \$20,000.00	Employee enquiries	<ul style="list-style-type: none"> ▪ Receiving employee enquiries ▪ Maintaining register of employee enquiries ▪ Responding to employee enquiries by telephone, email, facsimile and post ▪ Communications with employees concerning entitlements and options ▪ Communications with employees concerning disputed entitlements
	Calculating entitlements	<ul style="list-style-type: none"> ▪ Reviewing employee files and company books and records ▪ Reviewing awards ▪ Reconciling superannuation accounts and entitlement balances ▪ Determining employee entitlements

	Employee dividend	<ul style="list-style-type: none"> ▪ Other issues ▪ Communications with employees ▪ Communications with ATO concerning SGC proof of debt ▪ Calculating dividend rate ▪ Preparing dividend file ▪ Adjudicating on PODs ▪ Preparing for distribution ▪ Preparation and distribution of payment summaries ▪ Remitting PAYG to the ATO
Trade On \$20,000.00	Trade On Management	<ul style="list-style-type: none"> ▪ Communications with managers and staff ▪ Communications with OSR concerning payroll tax issues ▪ Closure of trading accounts as appropriate
	Processing receipts and payments	<ul style="list-style-type: none"> ▪ Accounting procedures including entry of payments and receipts
	Budgeting and financial reporting	<ul style="list-style-type: none"> ▪ Reviewing company's budgets and financial statements ▪ Preparation of cash flows for subsidiaries to assist in realisation options ▪ Preparation of financial reports ▪ Meetings to discuss trading performance
Investigation \$30,000.00	Conducting investigation into affairs of the Company	<ul style="list-style-type: none"> ▪ Investigating specific transactions warranting investigation ▪ Communications with directors and/or officers concerning company information ▪ Preparation of investigation file
	Litigation/Recoveries	<ul style="list-style-type: none"> ▪ Identification of potential actions/recoveries ▪ Proceed with any claims (if any identified)
	Reporting to ASIC	<ul style="list-style-type: none"> ▪ Preparation of statutory investigation report ▪ Preparation of supplementary statutory investigation report ▪ Communications with ASIC concerning investigations
Dividend \$30,000.00	Processing proofs of debt (PODs)	<ul style="list-style-type: none"> ▪ Communications with creditors inviting them to lodge PODs ▪ Receiving PODs ▪ Review, consideration and adjudication of PODs ▪ Maintaining POD register ▪ Communications with creditors seeking further information

		<ul style="list-style-type: none"> ▪ Advising creditors of POD adjudication
	Dividend procedures	<ul style="list-style-type: none"> ▪ Communications with creditors concerning declaration of dividend ▪ Advertising intention to declare dividend ▪ Preparation and finalisation of dividend calculation ▪ Maintaining dividend file & register ▪ Obtaining ATO clearance to allow dividend payment ▪ Advertising of dividend declaration ▪ Paying dividend to creditors & associated correspondence
Administration \$30,000.00	Appointment	<ul style="list-style-type: none"> ▪ Receiving appointment documents ▪ Communications with security firm concerning security issues ▪ Securing and backing up computer and accounting data ▪ Communications with Company officers (including RATA packs) ▪ Advising third parties of appointment including ATO, OSR and utilities
	General correspondence & word processing	<ul style="list-style-type: none"> ▪ Word processing including correspondence, file notes, agendas and minutes ▪ Care and maintenance of the file
	File review/checklist/document maintenance	<ul style="list-style-type: none"> ▪ Administration review ▪ Document filing and maintenance ▪ File reviews ▪ Updating checklist
	Bank accounts	<ul style="list-style-type: none"> ▪ Opening and/or closing bank accounts ▪ Bank account reconciliations ▪ Procuring and reviewing bank account statements ▪ Communications concerning bank account transactions
	ASIC lodgements	<ul style="list-style-type: none"> ▪ Preparation and lodging necessary forms with ASIC (505, 524 etc) ▪ General communications with ASIC
	ATO lodgements	<ul style="list-style-type: none"> ▪ Notification of appointment ▪ Preparation and submission of BAS
	Other lodgements	<ul style="list-style-type: none"> ▪ Communications with Court concerning reporting obligations ▪ Communication with ASX concerning ASX announcements

	<p>Planning review</p>	<ul style="list-style-type: none"> ▪ Weekly meeting to discuss the status of the administration ▪ Ad hoc meetings concerning the status of the administration
	<p>Storage of books and records</p>	<ul style="list-style-type: none"> ▪ Organising and storage of book and records ▪ Dispatching and receiving books and records to/from storage
	<p>Finalisation</p>	<ul style="list-style-type: none"> ▪ Communication with ATO concerning finalisation ▪ Cancelling ABN/GST/PAYG registration ▪ Finalising WIP ▪ Completing checklists

Schedule 6: FTI Consulting Schedules of Rates

FTI Consulting – Corporate Finance & Restructuring Standard Rates effective 1 March 2017 (excluding GST)		
Typical classification	All Australian Offices \$/hour	General guide to classifications
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.

The FTI Consulting Standard Rates above apply to the Corporate Finance & Restructuring practice and are subject to review at 1 January each year.

FTI Consulting US – Corporate Finance & Restructuring Standard Rates effective 1 March 2017 (excluding GST)	
Typical classification	United States Office US\$/hour
Senior Managing Director	840
Managing Director	760
Senior Director	695
Director	630
Senior Consultant	435
Consultant	335
Personal Assistant	240
Administrative Staff	135



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EXPERTS WITH IMPACT™

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring. More information can be found at www.fticonsulting.com.