



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

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



29 March 2018

SurfStitch

About this report: a guide for creditors

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Purpose of this Supplementary Report

- This report supplements the Administrators' Report to Creditors pursuant to s439A of the Corporations Act 2001 dated 16 March 2018 (**Report to Creditors**). This Supplementary Report provides details of and commentary with respect to, a circular dated 26 March 2018 issued by Ms Abigail Cheadle (one of the proponents of the Cheadle Group Proposal) to a number of creditors and Group Member Claimants (**Cheadle Circular**).
- We asked Ms Cheadle to confirm the recipients of the Cheadle Circular, but that confirmation has not been received. Accordingly, some readers of this report may not have read the Cheadle Circular, so this report provides a summary of its contents with the administrators' commentary for the benefit of all creditors and Group Member Claimants.

Background

- On 16 March 2018, the Administrators issued their Report to Creditors to provide Creditors with:
 - information about the Companies' business, property, affairs and financial circumstances; and
 - information as known to the Administrators that will enable creditors and Group Member Claimants to make an informed decision about the future of the Companies.
- The Report to Creditors included an outline and analysis of 2 DOCA proposals received from EziBuy and the Cheadle Group respectively. Creditors are referred to the Report to Creditors for details of the EziBuy Proposal and Cheadle Group Proposal.
- Following analysis of the 2 DOCA proposals, the Administrators recommended that SGL and SHPL execute a DOCA as per the terms of the EziBuy Proposal.
- On 26 March 2018 at 8:15pm, the Administrators became aware that Ms Abigail Cheadle, one of the proponents to the Cheadle Group Proposal had sent a circular to a number of Group Member Claimants (**Cheadle Circular**).
- The Cheadle Circular contains additional terms described as an "Enhanced Cheadle Proposal". It indicates that a revised DOCA proposal has been provided by the Cheadle Group to the Administrators for consideration.
- The Administrators note that:
 - they have received only one proposal from the Cheadle Group, being the Cheadle Group Proposal that was discussed in our Report to Creditors pursuant to Section 439A of the Corporations Act (Cth) 2001 dated 16 March 2018;

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- On 27 and 28 March 2018, the Administrators requested clarification of the Cheadle Circular and any revisions to the Cheadle Group Proposal. On 29 March 2018, legal counsel for the Cheadle Group advised that they are working on a revised proposal and we should not assume it will necessarily mirror the Cheadle Circular. At the time of issue of this supplementary report, no clarification or further information has been received with respect to the matters raised in the Cheadle Circular.
- In the Administrators' view, the Cheadle Circular **does not** accurately summarise the current terms of the Cheadle Group Proposal;
- In the Administrators' view, the Cheadle Circular is unclear in a number of respects and potentially confusing for creditors and Group Member Claimants;
- the Cheadle Circular **does not** specify the matters that a DOCA proposal is required to specify; and
- despite requests by the Administrators for clarification and further details, at the time of this correspondence, they **have not** received any other proposal from the Cheadle Group.
- As a result of the Cheadle Circular, a number of creditors and Group Member Claimants have expressed confusion as to the current DOCA proposals to be put forward to vote at the Second Meeting of Creditors. The Administrators have prepared a supplementary report to help creditors and Group Member Claimants understand the contents of the Cheadle Circular and to enable creditors and Group Member Claimants to make an informed decision about the future of the Companies at the Second meetings.
- Further, Ezibuy have provided a response to the Cheadle Circular detailed at **Appendix 3**.
- The Supplementary Report to Creditors should be read in conjunction with the previous Report to Creditors.

Second Meetings of Creditors (Second Meeting)

- Creditors and Group Member Claimants are reminded that a 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 which Creditors will determine the future of SGL and SHPL.
- Further details about the options available to Creditors and Group Member Claimants at the Second Meeting are provided in the Report to Creditors.

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Statement by Administrators

- This report has been prepared for the creditors of the Companies and Group Member Claimants to assist them in evaluating their position 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 Jack Teague on +61 2 8247 8000, 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

Administrators' opinion

The Administrators' opinion remains unchanged.

The Administrators consider that it still remains in creditors' interests for the Companies to execute a Deed of Company Arrangement as per the terms of the EziBuy Proposal.

Cheadle Circular

The Cheadle Circular (**Appendix 2**) does not summarise the terms of the Cheadle Group Proposal set out in the Report to Creditors.

Instead, it provides an incomplete summary of a purported proposal to which the circular refers as the "Enhanced Cheadle Proposal". No revised DOCA proposal has been provided to the Administrators.

Item	EziBuy Proposal	Cheadle Group Proposal	"Enhanced Cheadle Proposal"
Recommended option	✓	✗	✗
Reason	Best overall return to creditors including under a winding up	Overall return to creditors is worse than under the EziBuy Proposal	Overall return to creditors is worse than under the EziBuy Proposal.
Proposed Transaction	Sale of SSAU and certain IP to EziBuy	Relist SGL for quotation on the ASX	The proposed transaction is not clarified. The Cheadle Circular states it is " <i>the sale of certain IP to SSAU (or whatever structure is best to optimise the use of the group tax losses)</i> ". The Cheadle Circular refers to consideration for Group Member Claimants and SGL Shareholders being in the form of unlisted SSAU equity.
Employee and Ordinary Creditors of SGL and SHPL	Paid in full between 6 – 8 weeks	Paid in full between 6 – 8 weeks	Paid in full between 6 – 8 weeks
Group Member Claimants: Overview	Highest forecast return including under a winding up	Forecast return lower than under the EziBuy Proposal	Forecast return lower than under the EziBuy Proposal
Group Member Claimants: Cash Dividend	Cash dividend in an estimated aggregate amount of \$3.4m to \$4.3m	No cash dividend	The Cheadle Circular refers to the potential for a cash dividend but also notes that the dividend may be converted to a " <i>dividend reinvestment</i> " at the sole discretion of SSAU. The circumstances in which the dividend will be converted and the conversion mechanics are not specified. There is a possibility of no cash dividend to Group Member Claimants.

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Item	EziBuy Proposal	Cheadle Group Proposal	"Enhanced Cheadle Proposal"
Group Member Claimants: Share issue	Issued with a convertible note which will convert to shares in EziBuy which the Administrators estimate could have an aggregate value of \$6.0m-\$20.0m	Shares in SGL (ASX listed holding company) which the Administrators estimate could have an aggregate value of \$3.8m-\$6.1m	Shares in SSAU (non-listed subsidiary) which the Administrators estimate could have an aggregate value of \$6.1m-\$13.4m. It is unclear the procedure which would be adopted to issue shares.
Current SGL shareholders	Issued with a convertible note which will convert to shares in EziBuy which the Administrators estimate could have an aggregate value of \$1.5m-\$5.0m	Retain 47.85% diluted shareholding in SGL which the Administrators estimate could have an aggregate value of \$6.2m-\$9.7m	Shares in SSAU (non-listed subsidiary) which the Administrators estimate could have an aggregate value of \$1.5m-\$2.6m. The Cheadle Circular refers to the shares having a value of \$6m but no particulars are provided.
DOCA Execution Risk	Low	Low to medium	Unknown. No proposal/mechanics have been provided to the Administrators

1. Executive Summary

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, the EziBuy and Cheadle Group Proposal and the "Enhanced Cheadle Proposal" as per the information disclosed in the Cheadle Circular are shown in the following tables.
- More detailed analysis is shown in **Appendix 5**.
- 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 and Group Member Claimants.
- Dividend timing remains as per Section 10 of the Report to Creditors.

SHPL Creditors

Cents in the \$		Notes	Liquidation		EziBuy DOCA		Cheadle Group DOCA		Enhanced Cheadle Group DOCA	
Type	Low		High	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/\$	100.0 c/\$	100.0 c/\$
Ordinary Creditors	Cash	1	3.6 c/\$	6.6 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$

Note 1: Includes Non-Priority Employee claims

SGL Creditors and Shareholders

Cents in the \$		Notes	Liquidation		EziBuy DOCA		Cheadle Group DOCA		Enhanced Cheadle Group DOCA	
Type	Low		High	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/\$	100.0 c/\$	100.0 c/\$
Group Member Claimants	Cash	1, 2	5.3 c/\$	8.9 c/\$	4.1 c/\$	5.1 c/\$	0.0 c/\$	0.0 c/\$	3.2 c/\$	3.6 c/\$
Group Member Claimants	Shares	1	-	-	7.1 c/\$	23.5 c/\$	4.6 c/\$	7.2 c/\$	7.3 c/\$	12.2 c/\$
Group Member Claimants	Combined		5.3 c/\$	8.9 c/\$	11.2 c/\$	28.6 c/\$	4.6 c/\$	7.2 c/\$	10.5 c/\$	15.8 c/\$
Ordinary shareholders	Shares	3	-	-	7.9 c/\$	26.3 c/\$	32.6 c/\$	51.2 c/\$	8.2 c/\$	13.6 c/\$

Note 1: Assumes admissible claims of \$85m.

Note 2: There is **material uncertainty** on whether Group Member Claimants will be entitled to a cash dividend under the "Enhanced Cheadle Proposal" as the dividend may be converted to a "dividend reinvestment" at the sole discretion of SSAU. Refer to highlighted cells.

Note 3: Calculated using amount in aggregate shares, the pre-restructuring share price and number of share to quantify the loss.

1. Executive Summary

Overview of share issue to Group Member Claimants and Current Shareholders

Item	EziBuy Proposal	Cheadle Group Proposal	“Enhanced Cheadle Proposal”
Shares details			
Company issuing shares	EziBuy parent company that owns both EziBuy and SSAU	SGL, the ASX listed head company	SSAU, the wholly owned unlisted subsidiary of SHPL and SGL
Share to be issued to Group Member Claimants	Between 4% to 8% of the issued share capital on a fully diluted basis Administrators’ estimated value: \$6.0m-\$20.0m	30% of the issued share capital on a fully diluted basis Administrators’ estimated value: \$3.8m-\$6.1m	60% of the issued share capital on a fully diluted basis Administrators’ estimated value: \$6.2m-\$13.4m Note: The Cheadle Circular states that it applies the same basis for valuing SSAU as the Administrators which is incorrect. The Cheadle Circular states that the shares have an estimated value of \$24m (based on a SSAU valuation of \$40m). The Administrators consider the Cheadle Group valuation significantly overvalues SSAU.
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 Administrators estimated value: \$1.5m-\$5.0m	47.85% of the Issued share capital on a fully diluted basis Administrators’ estimated value: \$3.0m-\$4.8m	15.00% of the Issued share capital on a fully diluted basis Administrators’ estimated value: \$1.5m-\$2.6m Note: The Cheadle Circular states that it applies the same basis for valuing SSAU as the Administrators which is incorrect. The Cheadle Circular states that the shares have an estimated value of \$6m (based on a SSAU valuation of \$40m). The Administrators consider the Cheadle Group valuation significantly overvalues SSAU.

Note 2: The above comments on the EziBuy and Cheadle Group Proposals are as per those in the Executive Summary to the Report to Creditors and are repeated to assist with an understanding of the “Enhanced Cheadle Proposal”

1. Executive Summary

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

Item	EziBuy Proposal	Cheadle Group Proposal	"Enhanced Cheadle Proposal"
<p>Timetable for issuing shares</p> <p>Note: Shares cannot be issued or transferred to Subordinate Claimants before the final determination of their Claims – estimated to take between 6-12 months</p>	<p>Shares will be issued on the earlier of an IPO, trade sale, other liquidity event or 3 years from date of the DOCA.</p> <p>EziBuy advises that it is seeking to attain a "liquidity event" and issue the shares <i>"as soon as is reasonably practicable, subject to maximising returns to all shareholders and Convertible Note holders"</i>.</p>	<p>Shares are proposed to be issued by SGL without shareholder approval, within 60 days after the effectuation of the DOCA.</p> <p>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.</p> <p>Without discussing the matter with the ASX, the Administrators are unable to say whether the ASX would consider granting this waiver.</p>	<p>Shares are proposed to be issued by SSAU as soon as legally practicable.</p> <p>The shareholders will be able to sell the shares only if SSAU is listed separately to SGL, is sold, or another "liquidity event" occurs.</p> <p>No commitment has been made around timing of the listing, sale or other "liquidity event".</p>
<p>Remedy if shares not issued</p>	<p>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.</p> <p>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.</p>	<p>No remedy if the shares are not issued. The Group Member Claimants may seek independent advice on their rights in this regard.</p>	<p>No remedy specified if the shares are not issued. The Group Member Claimants may seek independent advice on their rights in this regard.</p>

Note 3: The above comments on the EziBuy and Cheadle Group Proposals are as per those in the Executive Summary to the Report to Creditors and are repeated to assist with an understanding of the "Enhanced Cheadle Proposal"

1. Executive Summary

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

Item	EziBuy Proposal	Cheadle Group Proposal	"Enhanced Cheadle Proposal"
ASX Listing	No information provided on intentions to list beyond the statement set out above in the section entitled "Timetable for issuing shares".	If SGL leaves its current voluntary suspension, it will need to comply with ASX listing rules. SGL may have compliance risks in relation to: (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). The ASX has power to delist a company for non-compliance with the Listing Rules.	No information provided on intentions to list
Returns prior to listing	If there is a trade sale and the EziBuy business is sold before listing, Group Member Claimants will receive: 1. Share sale: pro-rata payment of the sale price; and 2. Asset sale: pro-rata cash dividend. Otherwise, no formal mechanism to dispose of shares prior to listing. Prior to issue of shares, claims are in respect of a Convertible Note only.	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. 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.	No information provided

Note 4: The above comments on the EziBuy and Cheadle Group Proposals are as per those in the Executive Summary to the Report to Creditors and are repeated to assist with an understanding of the "Enhanced Cheadle Proposal"

1. Executive Summary

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

Item	EziBuy	Cheadle Group	Additional FTI Comments
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 incoming board has demonstrable ecommerce, capital raising and turnaround experience.	Nil
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 team's ability to drive growth strategies, guided by an experienced Board and/or the ability to raise capital to explore further acquisitions.	Nil
Access to funding	EziBuy is backed by a Private Equity sponsor, Alceon, with possible access to funding that SSAU may require to turnaround performance.	Letter of support from our Private Equity sponsor up to \$4m for working capital security and turnaround performance.	The working capital from the retained cash within the SGL Group (est. under the Cheadle Proposal at between \$2.6m and \$3.0m) will be eroded under the "Enhanced Cheadle Proposal" by an unspecified amount due to the payment of a cash dividend to ILP and Vannin and, potentially, some or all of the Group Member Claimants. The Administrators consider there is a potential for this erosion to cause SSAU to have insufficient working capital over the annual trading cycle.
SSAU Management support	Alceon have met with SSAU Management. SSAU Management have not provided any specific feedback from the meeting.	Justin Hillberg (General Manager) is a proponent of the Cheadle Proposal. The DOCA supports SSAU's critical priorities for the business outlined in Appendix 14 of the Administrator's report and hence, has SSAU Management's support.	We have received an updated Management Letter of Preference provided by Justin Hillberg (General Manager) dated 27 March 2018 (Appendix 4), which states that he is confident that both the EziBuy and the Cheadle DOCA will support the critical business priorities and the management team in the interest of delivering future success for the SurfStitch business and the management are equally supportive of both proposals

Note 5: The above comments on EziBuy are as per those in the Executive Summary to the Report to Creditors. The comments on the Cheadle Group are as per the Cheadle Circular

2. Cheadle Circular

2. Cheadle Circular

Introduction

- This section supplements Section 9 of the Report to Creditors (Deed of Company Arrangement Proposals) by providing details of and commentary on the Cheadle Circular.

Background

- On 26 March 2018 at 8.15pm, the Administrators became aware that Ms Abigail Cheadle, one of the proponents to the Cheadle Group Proposal had sent a circular to a number of Group Member Claimants (**Cheadle Circular**).
- The Cheadle Circular contains additional terms described as an “Enhanced Cheadle Proposal”. It indicates that a revised DOCA proposal has been provided by the Cheadle Group to the Administrators for consideration.
- The Administrators note that:
 - they have received only one proposal from the Cheadle Group, being the Cheadle Group Proposal that was discussed in our Report to Creditors pursuant to Section 439A of the Corporations Act (Cth) 2001 dated 16 March 2018;
 - On 27 and 28 March 2018, the Administrators requested clarification of the Cheadle Circular and any revisions to the Cheadle Group Proposal. On 29 March 2018, legal counsel for the Cheadle Group advised that they are working on a revised proposal and we should not assume it will necessarily mirror the Cheadle Circular. At the time of issue of this supplementary report, no clarification or further information has been received with respect to the matters raised in the Cheadle Circular.
 - In the Administrators’ view, the Cheadle Circular **does not** accurately summarise the current terms of the Cheadle Group Proposal;
 - In the Administrators’ view, the Cheadle Circular is unclear in a number of respects and potentially confusing for creditors and Group Member Claimants;
 - the Cheadle Circular **does not** specify the matters that a DOCA proposal is required to specify; and
 - despite requests by the Administrators for clarification and further details, at the time of this correspondence, they **have not** received any other proposal from the Cheadle Group.

- Based on correspondence from the Cheadle Group’s legal counsel we understand they may withdraw the original Cheadle Group Proposal and put forward a new proposal for consideration by creditors and Group Member Claimants.
- Nevertheless, the Administrators consider that it is important that Creditors are aware of the differences between the Cheadle Group Proposal and the information contained in the Cheadle Circular.
- The Administrators consider that the information within the Cheadle Circular does not supplement or replace the terms of the Cheadle Group Proposal on which Creditors will be asked to vote at the Second Meeting.
- The Administrators will update Creditors if the Cheadle Group put forward a new proposal. Due to timing constraints, it is possible that such an update can only be provided at the Second Meeting.

2. Cheadle Circular

Line Item	Cheadle Group Proposal	“Enhanced Cheadle Proposal” per Cheadle Circular	FTI Comments
Requirement for a Creditors’ trust	A Creditors Trust is required	Not specified	
Conditions precedent	Sam Weiss, Harry Hodge and Mike Sonand must resign as directors	No condition precedents specified	
Deed Administrators/Trustees	The Administrators	Not specified	
Composition of Deed Funds	<p>An amount sufficient to pay:</p> <ul style="list-style-type: none"> Priority and Ordinary Unsecured Creditors of SHPL and SGL (excluding related companies) a dividend of 100 cents in the dollar; Administrators, Deed Administrators and Trustees’ fees, costs and trading expenses 	As per Cheadle Group Proposal plus an additional cash amount that the Cheadle Group forecasts will be between \$3.4m and \$4.3m	<p>The Enhanced Cheadle Proposal states that the source of the additional cash amount is the same as for the EziBuy cash dividend to Group Member Claimants.</p> <p>The Administrators consider that between \$0.89m and \$1.24m of that amount would not be available under the Enhanced Cheadle Proposal due to the Cheadle Group’s proposals to retain:</p> <ul style="list-style-type: none"> the SSAU cash at bank; and the Westpac merchant/bank guarantee facilities that are secured by a blocked account. <p>Refer to Appendix 5 for further details.</p>
Distribution of Deed Funds	<p>Payment of</p> <ul style="list-style-type: none"> Priority and Ordinary Unsecured Creditors of SHPL and SGL (excluding related companies) in full; and Administrators’, Deed Administrators’ and Trustees’ fees, costs and trading expenses. 	<p>As per Cheadle Group Proposal.</p> <p>Additionally, the Group Member Claimants may have an entitlement to a cash dividend.</p>	<ul style="list-style-type: none"> The total aggregate quantum of the cash dividend available to Group Member Claimants cannot be determined as the sources of the cash available to pay the dividend have not been disclosed and, at a minimum are likely to be between \$0.89m and \$1.24m lower than estimated. A guaranteed cash dividend is payable only to ILP and Vannin (litigation funders) - the basis for and mechanics of which are not specified; Group Member Claimants will at the election of SSAU receive a dividend reinvestment in lieu of a cash dividend.

2. Cheadle Circular

Line Item	Cheadle Group Proposal	“Enhanced Cheadle Group Proposal” per Cheadle Circular	FTI Comments
Moratorium on claims	Continue for the duration of the DOCA	Not specified	
Extinguishment of claims	On effectuation of the DOCA	Not specified	
Default if shares are not issued	Not specified	Not specified	
Timing of dividend to Priority and Ordinary Creditors	6-8 weeks	6-8 weeks	
Issue of shares to Group Member Claimants	Within 60 days	As soon as legally practical	The Cheadle Group has not advised of the legal or timing requirements for the issue of shares by SSAU.

2. Cheadle Circular

Valuation Methodologies

The Cheadle Circular raises specific issues with respect to the Administrators valuation methodology as detailed in the following table together with the Administrators' comments on those issues.

Valuation issues raised in the Cheadle Circular	FTI Comment
EziBuy valuation	
<p><i>"The Administrators report is silent on whether a discount has been applied for the time value of money, given the return is three years away."</i></p>	<p>The time value related discount has not been applied in the case of both EziBuy and Cheadle proposals.</p> <p>The fact that there is no explicit discount applied in relation to time value of money split out in the calculations on Page 116 of our Report to Creditors dated 16 March 2018 for the EziBuy valuation does not impact our EziBuy transaction valuation /evaluation in the broader scheme of matters due to the following:</p> <ul style="list-style-type: none"> ▪ To be conservative, we have not considered the combined forecast EBITDA projections of SurfStitch Australia and EziBuy post a potential transaction and successful integration, which is forecast to be higher than the stand alone EBITDA of EziBuy alone. ▪ We have considered a Future Maintainable Earnings of EziBuy based on EziBuy's forecasts for FY18. ▪ EziBuy's FY18 H1 Actual P&L results from July 2017 to December 2018 (presented on Page 100 of our Report) demonstrate EziBuy's turnaround compared to the same period in the previous year, FY17. ▪ A liquidity event under the Ezibuy proposal may occur prior to 3 years. ▪ If a time value of money discount was to be applied it would need to be applied under both the Ezibuy Proposal and Cheadle Group Proposal as there are timing risks associated with both. <p>Additionally, in the case of EziBuy proposal, the proposed new enterprise already has demonstrated turnaround through one of its Business Units. Hence, proposed shareholding is in a currently profitable enterprise.</p>
SSAU valuation	
<p><i>"Applying the same basis for estimating value as the Administrators outlined in their report for EziBuy, the estimated value of 100% if SSAU is between \$26.25 to \$43.75m. We cross checked this with listed comparatives and have used \$40m for an estimation of valuation for comparative purposes only."</i></p>	<p>The Administrators have sought but not received particulars of how the Cheadle Group have derived this valuation of SSAU.</p> <p>The Administrators consider that a more appropriate valuation of SSAU is between \$12.9m to \$20.1m (if listed on the ASX) and not more than \$10.3m to \$17.4m (if it remains not listed).</p>

3. Administrators' Recommendation

3. Administrators' Recommendation

Administrators' Recommendation

- It remains 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 wound up.

Dated 29 March 2018



Joseph Ronald Hansell

Joint and Several Administrator

Appendix 1 – Glossary and Terms of Reference

Appendix 1 - Glossary and Terms of Reference

Item	Definition
Administrators	John Park, Joseph Ronald Hansell and Quentin James Olde
Appointment date	24 August 2018
ASX	Australian Securities Exchange
AUD	Australian Dollars
Cheadle Circular	Circular dated 26 March 2018, which is Appendix 2 to this report
Cheadle Group	Abigail Cheadle, Justin Hillberg, Tony Nash, Leonie Henzell and Jon Brett
Cheadle Group Proposal	As per Appendix 10 of the Report to Creditors. 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>) ⁹
Companies	SurfStitch Group Limited and SurfStitch Holdings Pty Limited
DOCA	Deed of Company Arrangement
EziBuy	EziBuy Holdings Ltd
EziBuy Proposal	As per Appendix 9 of the Report to Creditors. Deed of Company Arrangement proposed by EziBuy
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.
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

Item	Definition
POD	Informal Proof of Debt
Proxy	Appointment of Proxy Form
Report to Creditors	Report to Creditors dated 16 March 2018
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
SHPL	Surfstitch Holding Pty Limited
SSAU or SurfStitch Australia	Surfstitch Pty Ltd
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).
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)
Westpac	Westpac Banking Corporation

Appendix 1 - 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 – Cheadle Circular

Appendix 2 – Cheadle Circular

26 March 2018

Dear SurfStitch Shareholder,

Proof of Debt (POD) and Appointment of Proxy Form (Proxy) Request FOR the enhanced Cheadle Deed of Company Arrangement (DOCA) Proposal for SurfStitch Group Limited (SGL)

If you held or acquired shares in SGL during the period 27 August 2015 to 9 June 2016 then you're probably a Group Member Claimant (GMC)¹ and under the Cheadle DOCA Proposal you would share in 60% of the shares in SurfStitch Pty Ltd² (SSAU) with an estimated aggregate value of \$24m³. If you are still registered as a shareholder in SGL, you would share in a further 15% of the shares in SSAU with an estimated aggregate value of \$6m.

This is to be compared with Ezibuy's proposal to issue GMCs a convertible note worth \$15m converting in three years' time to 4% to 8% of the shares in the Ezibuy parent. According to the Administrators' report this \$15m convertible note has an estimated aggregate value of \$6.0m-\$20.0m.⁴ Under the Ezibuy proposal, if you are still holding shares in SGL, you will also be issued with a convertible note which will convert to 1% to 2% of the shares in the Ezibuy parent worth an estimated aggregate amount of \$1.5m- \$5.0m.

Appendix A details the competing DOCA offers in a table so it's easy to compare them.

If you want to take the Cheadle offer, it is imperative you lodge a formal POD and if you can't make the meeting, lodge or, if necessary, re-lodge a Proxy for the SGL Second Meeting as supplied by Link Insolvency Solutions (the Link POD and Proxy). The Proxy should either:

1. appoint Abigail Cheadle of Brisbane to vote at the meeting as your general proxy; or
2. appoint Abigail Cheadle as your special proxy to vote **FOR** executing a DOCA proposed by the Cheadle Group and **AGAINST** executing a DOCA proposed by Ezibuy

If you have not received your unique Link POD and Proxy and you held or acquired shares in SGL during the period 27 August 2015 to 9 June 2016, please contact Link Insolvency Solutions immediately on 1300 853 809 or email: srf@linkmarketservices.com.au and request a Circular to GMCs which should attach your unique Link POD and Proxy.

GMCs are only eligible to vote at the SGL Second Meeting, if they lodge the Link POD (with particulars of your claim with Link Insolvency Solutions as directed on the Circular to GMCs) prior to 2:00pm AEDT on 29 March 2018.

Please email me on abi@directiongroup.com.au if I can assist with any queries.

Yours sincerely,
Abigail Cheadle (On behalf of the Cheadle Group DOCA Proponents)

¹ See Appendix B for details of eligibility.

² SSAU owns the SurfStitch business and platform. It is run by Justin Hillberg, one of the proponents of our DOCA.

³ Applying the same basis for estimating value as the Administrators outlined in their report for Ezibuy, the estimated value of 100% of SSAU is between \$26.25 to \$43.75m. We cross checked this with listed comparatives and have used \$40m for an estimation of valuation for comparative purposes only.

⁴ The Administrators report is silent on whether a discount has been applied for the time value of money, given the return is three years away. Ezibuy is a private company and its financial information is unaudited and forecasts unverified.

Appendix A – Ezibuy and Enhanced Cheadle Proposal Comparison

Comparison Item	Ezibuy Proposal	Enhanced Cheadle Proposal
Proposed Transaction	Sale of SSAU and certain IP to Ezibuy parent company, which will issue the shares.	Sale of certain IP to SSAU (or whatever structure is best to optimise the use of the group tax losses)
SGL and SHPL Priority and Ordinary Creditors	Paid in full between 6 – 8 weeks	Paid in full between 6 – 8 weeks
Group Member Claimants (GMCs)	<ol style="list-style-type: none"> 1. Cash dividend in an estimated aggregate amount of \$3.4m to \$4.3m³. 2. Issued with a convertible note which will convert to 4% to 8% shares in Ezibuy with an estimated aggregate value of \$6.0m-\$20.0m. 	<ol style="list-style-type: none"> 1. Cash dividend in an estimated aggregate amount of \$3.4m to \$4.3m. The litigation funders can take their portion in cash and the GMCs can take their portion as a dividend reinvestment or in cash at SSAU's call. 2. Issued with 60% of shares in SSAU with an estimated aggregate value of \$24m.
Estimated GMCs receive shares	In 3 years.	As soon as legally practicable. The shareholders exit will be an IPO, trade sale or other liquidity event.
Current SGL shareholders	Issued with a convertible note which will convert to 1% to 2% of shares in Ezibuy worth an estimated aggregate amount of \$1.5m-\$5.0m.	Issued with 15% of shares in SSAU worth an estimated aggregate amount of \$6m.
Estimated return for creditors	100.00 cents in the dollar	100.00 cents in the dollar

³ We understand that the Ezibuy cash dividend is the residual cash in the group and Administrators bank accounts after collecting outstanding sales proceeds, covering trade and working capital requirements, paying all priority and unsecured creditors and the Administrators' costs. Whilst the best attempts have no doubt been made to forecast such, this is only an estimate. The residual cash could be quite different to that estimated due to: interim trading and working capital requirement fluctuations; foreign exchange fluctuations applied to sales proceeds; variance in application of creditors proofs from the Administrators' estimates; and the Administrators' costs are not fixed. Irrespective, we will offer the same based on the formula Ezibuy have outlined with the exception that the non-litigation GMC portion will be reinvested in SSAU at SSAU's call.

Appendix 2 – Cheadle Circular

Comparison Item	EziBuy Proposal	Enhanced Cheadle Proposal
Ecommerce experience	Alceon, through the EziBuy turnaround process, have gained experience in the turnaround of an ecommerce business.	The incoming board has demonstrable ecommerce, capital raising and turnaround 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 selling opportunities. Further acquisitions are also considered for the merged group.	Future business scale will depend on ability to drive growth strategies and leverage its new platform and fulfillment.
Access to funding	EziBuy is backed by a Private Equity sponsor, Alceon, with possible access to funding that SSAU may require to turnaround performance.	Letter of support from our Private Equity sponsor up to \$4m for working capital security and turnaround performance.
Class Actions	Dealt with under the DOCA.	Either settling with the class actions or dealt with under the DOCA.
SSAU Management support	Alceon have met with SSAU Management. SSAU Management have not provided any specific feedback from the meeting.	Justin Hillberg (General Manager of SSAU) is proponent of the Cheadle Proposal. This DOCA supports SSAU's critical priorities for the business as outlined in Appendix 1.4 of the Administrators' report and hence has SSAU Management's support.

APPENDIX B – GMC Eligibility Criteria

A GMC is a current or former shareholder of SGL who acquired and held shares during defined periods and on the dates specified in the table:

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

Appendix 3 – Ezibuy Response

Appendix 3 – Ezibuy Response



28 March 2018

By email: Quentin.Olde@fticonsulting.com

Quentin Olde and John Park
FTI Consulting
Level 20, CP1
345 Queen Street
Brisbane QLD 4000, Australia

Dear Quentin and John

Cheadle DOCA Proposal for Surfstitch

We understand that Abigail Cheadle, on behalf of the Cheadle Group DOCA Proponents, submitted a letter to the shareholders of Surfstitch Group Limited (**SGL**) entitled 'Proof of Debt (POD) and Appointment of Proxy Form (Proxy) Request FOR the enhanced Cheadle Deed of Company Arrangement (DOCA) proposal for SurfStitch Group Limited (SGL)' (**Cheadle Letter**).

The Cheadle Letter purports to compare the deed of company arrangement proposals from Ezibuy Holdings Ltd (**Ezibuy**) (**Ezibuy DOCA**) and from Abigail Cheadle (**Cheadle DOCA**).

We believe the Cheadle Letter is misleading in a number of respects and that the record needs to be corrected as a matter of urgency.

We have set out here what Ezibuy considers to be the issues that need to be brought to the attention of creditors and shareholders of SGL to correct the record and to ensure creditors and shareholders are adequately informed.

We have also attached a detailed explanation of each point in Appendix A.

1. There is no new Cheadle DOCA Proposal

- The Cheadle Letter does not represent a DOCA proposal that is currently proposed to be put to creditors at the creditors meeting and is not a proposal that can be voted.

2. The Cheadle Letter refers to a fundamentally different form of consideration for creditors

- The Cheadle Letter refers to consideration for Group Member Claimants (GMC's) and SGL shareholders being in the form of unlisted Surfstitch Pty Ltd (SSAU) equity, rather than shares in a re-listed SGL as was proposed in the Cheadle DOCA. This is a fundamental deviation from the Cheadle DOCA and the omission of an explicit explanation in the Cheadle Letter is materially misleading for its recipients.

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3. The Cheadle Letter refers to a valuation of SSAU which is unsubstantiated, misleading and not a fair comparison to the Ezibuy DOCA

- The Cheadle Letter incorrectly states that it applies the same basis for valuing SSAU as the Administrators. The letter does NOT apply the same basis as the Administrators outlined in their report
- Applying the same valuation basis as P116 of the creditors report dated 16 March 2018:
 - SSAU has a maintainable EBITDA pre-listing costs of \$2.0-2.3m
 - At a 10-12x valuation range and a 15-20% private company discount, 100% of unlisted SSAU has a value of \$15.9m to \$23.4m
 - The midpoint is \$19.6m
- This range is materially below the Cheadle Letter valuation range of \$26.2-43.8m
- The midpoint of \$19.6m is further below the arbitrarily chosen Cheadle Letter valuation of \$40.0m which sits at the upper end of the Cheadle Letter range

4. The Cheadle Letter refers to cash dividend of \$3.4m to \$4.3m for GMC's, however it is at the sole discretion of SSAU to retain that cash

- The Cheadle DOCA previously deemed this cash as required for working capital purposes
- The Cheadle Letter states the litigation funders can take an unspecified portion of any cash dividend and the GMCs can take their portion as a dividend reinvestment or in cash at SSAU's call
- Under the Ezibuy proposal the \$3.4m-\$4.3m dividend is a true cash dividend and Ezibuy does not have the option of retaining this cash
- GMCs receive \$3.4m-\$4.3m from a certain cash dividend under the Ezibuy proposal vs. the possibility of no cash under the Cheadle proposal

5. The Cheadle Letter falsely implies that the liquidity event under the Cheadle proposal is sooner than the Ezibuy Proposal

- The Cheadle Letter refers to consideration for GMC's and SGL shareholders being in the form of unlisted SSAU equity
- The Cheadle Letter proposes an acquisition of SSAU and a liquidity event "as soon as legally practicable"

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Appendix 3 – Ezibuy Response



- The Ezibuy conversion event for the convertible notes is also as soon as reasonably practicable, but no later than 3 years after issuance

6. Implied management support

- The Cheadle Letter implies that management support the Cheadle proposal in preference to the Ezibuy proposal. This is not correct.
- Whilst named as a proponent of the Cheadle DOCA, Justin Hillberg, the General Manager of SSAU, has advised Ezibuy that he will support either proposal if successful. He has also indicated to Ezibuy that he believes the Ezibuy proposal is the better outcome for Surfstitch.

Summary of financial outcomes for GMCs and SGL Shareholders using the same valuation methodology as the Administrators report (as intended by the Cheadle Letter)

GMCs

	Cheadle Letter	Ezibuy DOCA
Cash	<u>At the option of SSAU:</u> \$3.4m to \$4.3m estimated dividend	<u>Guaranteed dividend:</u> \$3.4m to \$4.3m estimated dividend
Equity	<u>60% unlisted SSAU shares:</u> \$9.6m to \$14.1m	<u>4-8% of Ezibuy and SSAU merged group:</u> \$6.0m to \$20.0m
Total <u>Guaranteed</u> Forms of Consideration	\$9.6m to \$14.1m	\$9.5m to \$24.2m
Total Likely Guaranteed Forms of Consideration	\$9.6m to \$14.1m	\$15.4m to \$24.2m¹

SGL Shareholders

	Cheadle Letter	Ezibuy DOCA
Equity	<u>15% unlisted SSAU shares:</u> \$2.4m to \$3.5m	<u>1-2% of Ezibuy and SSAU merged group:</u> \$1.5m to \$5.0m
Total Likely Guaranteed Forms of Consideration	\$2.4m to \$3.5m	\$3.0m to \$5.0m¹

¹ Likely Guaranteed Forms of Consideration applies high end of convertible note equity range (8% for GMC's and 2% for SGL shareholders) to the Administrator's low & high equity Ezibuy + SSAU merged valuation range as this is the expected outcome of the conversion formula given anticipated future performance of SSAU under the Ezibuy DOCA.

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As stated we believe the Cheadle Letter is misleading and that the record needs to be corrected for all creditors to make an informed decision between the Ezibuy DOCA and the Cheadle DOCA.

Yours faithfully

Richard Facioni
Chairman
Ezibuy Limited

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Appendix 3 – Ezibuy Response

Appendix – Detailed explanation

	Cheadle assertion	Source of misleading assertion	Clarification required
Cover letter			
No new Cheadle DOCA	In the first paragraph of the Cheadle Letter: "... under the Cheadle DOCA Proposal you would share in 60% of the shares in Surfstitch Pty Ltd (SSAU)"	This is not what the Cheadle proposal provided for. The Cheadle proposal provided for SGL to be re-listed. There is no new or enhanced Cheadle DOCA Proposal that has been put forward.	It should be clear that is was not what the Cheadle DOCA proposed and what is described in the Cheadle Letter is not a proposal that is intended to be or can in its current form be put before the creditors for a vote.
Valuation is wrong	Note 3 to the Cheadle Letter sets out the basis for the value of 60% of SSAU <i>"Applying the same basis for estimating value as the Administrators outlined in their report for Ezibuy, the estimated value of 100% of SSAU is between \$26.25 to \$43.73m. We cross checked this with listed comparatives and have used \$40m for an estimation of valuation for comparative purposes only"</i>	The Administrators report (P116) presented a standalone valuation of SSAU for the Cheadle proposal using management's forecast of normalised maintainable EBITDA (\$2.0-\$2.3m) less listing costs (\$0.6-0.7m). If the same basis of valuation were to be used (using a 10.0-12.0x multiple) it would imply a valuation range of \$12.9m to \$20.3m for 100% of SSAU. If the Cheadle proposal now provides for SSAU remain unlisted, and listing costs are added back, the value would be in the range of \$20m to \$28m. The administrators report applied a discount of 15% to 20% to the Ezibuy proposal because it was a private company. Applying the same discount would put the SSAU value at \$15.9m to \$23.4m.	It needs to be clear that on the same basis of valuation, the correct value range for unlisted SSAU, as a whole, is \$15.9m to \$23.4 million. The mid-point is \$19.6m and not \$40m.
Comparison table			

Cash dividend for Group Member Claimants	The Cheadle Letter proposes a cash dividend of \$3.4 to \$4.3m. By footnote 5, it purports to qualify the Ezibuy cash dividend of the same amount by saying that it not assured.	<ul style="list-style-type: none"> Under the Ezibuy proposal the dividend is a true cash dividend The proposal is an estimate under both proposals There is no new cash in the Cheadle proposal for Group Member Claimants. The enhanced Cheadle proposal retains the option of deeming the GMC cash a dividend reinvestment so the cash is uncertain. This is cash which was previously deemed required for working capital in the original Cheadle proposal GMCs receive \$3.4-\$4.3m under a certain cash dividend (no reinvestment requirement) under the Ezibuy proposal vs. the possibility of no cash (dividend reinvested) under the Cheadle proposal see above for misleading assertions of value 	It should be made clear that the enhanced Cheadle proposal does not offer a better cash return to Group Member Claimants than the Ezibuy proposal and is likely to offer less cash because the dividend can be reinvested and not paid out at Cheadle's option.
Equity for Group Member Claimants	The Cheadle Letter purports to offer 60% of SSAU equity to GMCs. The DOCA proposal before creditors provides for 30%.		
Total value	GMCs receive \$9.6m-\$14.0m (unlisted SSAU equity) under the "enhanced Cheadle Proposal"	GMCs receive \$9.5m-\$24.2m (certain cash + Ezibuy equity) under the Ezibuy Proposal	To be made clear that even on the same valuation basis, the value of the enhanced Cheadle Proposal is less than the Ezibuy proposal
Timing of liquidity	The Cheadle Letter states that GMCs will receive shares only after 3 years on the Ezibuy Proposal but "as soon as practicable" under the enhanced Cheadle proposal.	3 years is misleading for the Ezibuy Proposal, as it is the earlier of a liquidity event and 3 years: the Ezibuy shareholders have advised that they intend to pursue a liquidity event as soon as reasonably practicable	It should be made clear that the GMCs will be no better off and may be worse off on the timing of a liquidity event.

Appendix 3 – Ezibuy Response

		<ul style="list-style-type: none"> The "Enhanced Cheadle Proposal" appears to now be for shares in an unlisted SSAU and GMCs will in effect receive shares upon a liquidity event, which is no different to the Ezibuy proposal, but is likely to be more difficult to achieve with SSAU as a standalone business compared to the combined SSAU and Ezibuy business. The Cheadle proposal also places no maximum timeframe for a liquidity event, so the liquidity event could be much later than 3 years, if at all, under the Cheadle proposal. 	<ul style="list-style-type: none"> The proposal for shareholders is not "enhanced" and is worse than the Ezibuy proposal
Value for shareholders	15% for SGL shareholders (\$2.4-\$3.5m) under the "Enhanced Cheadle Proposal". The DOCA Proposal before creditors provides for 47.9%		<ul style="list-style-type: none"> This value for shareholders of SSAU is less than the value proposed in the original Cheadle proposal for SGL shareholders.
Access to funding	The enhanced Cheadle Proposal implies that there is equivalent access to funding because both groups have private equity backing.		<ul style="list-style-type: none"> Ezibuy and SSAU together have significantly more scale than SSAU as a standalone entity and its balance sheet provides it with significantly more access to funding than SSAU standalone
Management support	The enhanced Cheadle proposal implies its proposal has management support.		<ul style="list-style-type: none"> Justin Hilberg remains a proponent of the Cheadle DOCA for historical reasons. He has advised Ezibuy and the Administrators that he would support either DOCA but believes Ezibuy's proposal would be the better outcome for Surfstitch

Appendix 4 – Management Preference Letter

Appendix 4 – Management Preference Letter



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

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E: customerservice@surfstitch.com

MANAGEMENT LETTER OF PREFERENCE

27/3/2018

To whom it may concern,

Over recent weeks I have worked closely with both EziBuy and Cheadle DOCA proposals and based on these discussions, I am confident that the critical business priorities will be supported. While I am a proponent of the Cheadle DOCA, I am equally supportive of the EziBuy DOCA and believe both proposals are supportive of the management team in the interest of delivering future success for the SurfStitch business. The transition phase is vital for driving a quick turnaround and both the EziBuy and Cheadle DOCA proposals offer the appropriate support to achieve this successfully in my opinion.

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 management's 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 5 – Estimated Return to Creditors

Appendix 5 - Estimated Return to Creditors

SHPL: Estimated Return to Creditors

- The estimated returns to Priority Employee and Ordinary Creditors including calculations based on high/low scenarios for the Liquidation, the Ezibuy and Cheadle Group Proposals and the "Enhanced Cheadle Proposal" as per the information disclosed in the Cheadle Circular are shown below.
- Explanatory notes are detailed on the following slide.

AU\$	Notes	Liquidation		EziBuy Proposal		Cheadle Group Proposal		"Enhanced Cheadle Proposal"	
		Low	High	Low	High	Low	High	Low	High
Assets available to Administrators									
Cash at Bank	1	8,006,232	8,006,232	8,006,232	8,006,232	8,006,232	8,006,232	8,006,232	8,006,232
Distribution on winding up of MSW	PR	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
SSAU Cash at Bank	2			-	350,000				
Dividend from SSAU	PR	1,300,000	3,700,000						
		9,606,232	12,006,232	8,306,232	8,656,232	8,306,232	8,306,232	8,306,232	8,306,232
Administrators' Remuneration and Disbursements	PR	(2,088,000)	(2,038,000)	(2,139,000)	(2,089,000)	(2,139,000)	(2,089,000)	(2,139,000)	(2,089,000)
Administrators' Trading Expenses	3	(150,000)	(100,000)	(150,000)	(100,000)	(150,000)	(100,000)	(150,000)	(100,000)
Administrators' Legal and Other Costs	PR	(171,000)	(171,000)	(171,000)	(171,000)	(171,000)	(171,000)	(171,000)	(171,000)
Liquidators' remuneration and costs	PR	(175,000)	(200,000)	-	-	-	-	-	-
Deed Administrators'/Trustees' remuneration and costs	PR	-	-	(100,000)	(75,000)	(100,000)	(75,000)	(100,000)	(75,000)
Amount available for priority employee creditors		7,022,232	9,497,232	5,746,232	6,221,232	5,746,232	5,871,232	5,746,232	5,871,232
Priority employee creditors	PR	(898,292)	(898,292)	(898,292)	(701,462)	(755,199)	(755,199)	(755,199)	(755,199)
		6,123,940	8,598,940	4,847,940	5,519,771	4,991,033	5,116,033	4,991,033	5,116,033
Employee Retention Bonus	PR			(250,000)	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)
Distribution to SGL (Cheadle Group Proposal)	PR					(1,432,224)	(1,432,224)		
Amount retained for working capital	PR					(2,870,392)	(2,995,392)		
Amount available for ordinary creditors		6,123,940	8,598,940	4,597,940	5,269,771	438,417	438,417	4,741,033	4,866,033
SGL (pre-appointment intercompany balance)	PR	(6,108,009)	(8,570,110)	-	-	-	-	-	-
Ordinary creditors	PR	(15,932)	(28,830)	(438,417)	(438,417)	(438,417)	(438,417)	(438,417)	(438,417)
		(6,123,940)	(8,598,940)	(438,417)	(438,417)	(438,417)	(438,417)	(438,417)	(438,417)
<i>Cents in the dollar return for ordinary creditors</i>		3.6 c/\$	6.6 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$	100.0 c/\$
Amount available to SGL as 100% shareholder of SHPL	4	-	-	4,159,524	4,831,354	-	-	4,302,616	4,427,616



Appendix 5 - Estimated Return to Creditors

SHPL Notes

Note PR

These line items have not materially changed since the issue of the Report to Creditors. Refer to Appendix 14 of the Report to Creditors dated 16 March 2018 for explanatory notes.

Note 1

Since the previous Report to Creditors dated 16 March 2018, the Cash at Bank has increased following receipt of the deferred consideration of GB£2million from the sale of SurfDome. Refer to Section 5 of the Report to Creditors dated 16 March 2018 for further details.

Note 2

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. We have also assumed that it is not applicable to the "Enhanced Cheadle Proposal" due to the information disclosed in the Cheadle Circular.

Note 3

Estimate of the Administrators' trading expenses up to the execution of the DOCA/commencement of winding up. It is noted these expenses have reduced since the Report to Creditors dated 16 March 2018 due to trading expenses being paid during the period 16 March 2018 and the date of this Supplementary Report.

Note 4

Surplus funds following payment of 100 cents in the dollar to all creditors. Under the Ezibuy and, potentially, the "Enhanced Cheadle Proposal" these funds will be distributed to SGL. We cannot be certain that any or all the funds will be distributed under the "Enhanced Cheadle Proposal" due to the apparent entitlement of SSAU to retain surplus funds at its sole discretion.

Appendix 5 - Estimated Return to Creditors

SGL: Estimated Return to Creditors

- The estimated returns to creditors including calculations based on high/low scenarios for the Liquidation, the Ezibuy and Cheadle Group Proposals and the "Enhanced Cheadle Proposal" as per the information disclosed in the Cheadle Circular are shown below.
- Explanatory notes are detailed on the following slide.

AU\$	Notes	Liquidation		EziBuy Proposal		Cheadle Group Proposal		"Enhanced Cheadle Proposal"	
		Low	High	Low	High	Low	High	Low	High
Assets available to Administrators									
Cash at Bank	PR	1,432,224	1,432,224	1,432,224	1,432,224	1,432,224	1,432,224	1,432,224	1,432,224
Proceeds from Westpac blocked account	1	-	300,000	898,650	898,650	-	-	-	-
Distribution from SHPL	2	6,108,009	8,570,110	4,159,524	4,831,354	1,540,902	1,376,902	4,302,616	4,427,616
		7,540,232	10,302,334	6,490,398	7,162,228	2,973,126	2,809,126	5,734,840	5,859,840
Administrators' Remuneration and Disbursements	PR	(1,171,000)	(1,102,000)	(1,232,000)	(1,163,000)	(1,232,000)	(1,163,000)	(1,232,000)	(1,163,000)
Administrators' Trading Expenses	PR	(15,000)	(20,000)	(15,000)	(20,000)	(15,000)	(20,000)	(15,000)	(20,000)
Administrators' Legal and Other Costs	PR	(140,000)	(140,000)	(140,000)	(140,000)	(140,000)	(140,000)	(140,000)	(140,000)
Liquidators' Remuneration and costs	PR	(600,000)	(400,000)	-	-	-	-	-	-
Deed Administrators'/Trustees' remuneration and costs	PR	-	-	(500,000)	(400,000)	(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)	(1,887,000)	(1,723,000)
Amount available for priority creditors		5,614,232	8,640,334	4,603,398	5,439,228	1,086,126	1,086,126	3,847,840	4,136,840
Priority employee creditors	PR	(4,651)	(4,651)	(4,651)	(4,651)	(4,651)	(4,651)	(4,651)	(4,651)
Amount available for ordinary creditors		5,609,581	8,635,683	4,598,747	5,434,577	1,081,475	1,081,475	3,843,189	4,132,189
Ordinary creditors	PR	(1,013,209)	(1,013,209)	(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/\$	100.0 c/\$	100.0 c/\$
		4,596,372	7,622,474	3,585,538	4,421,368	68,266	68,266	2,829,980	3,118,980
Statutory interest - assume 3 months to pay dividend	PR	(68,266)	(68,266)	(68,266)	(68,266)	(68,266)	(68,266)	(68,266)	(68,266)
Amount Available to Group Member Claimants		4,528,106	7,554,208	3,517,272	4,353,102	-	-	2,761,714	3,050,714
Shares in EziBuy/SSAU	3			6,018,765	19,955,947	3,870,000	6,084,000	6,192,000	10,342,800
Net return to Group Member Claimants		4,528,106	7,554,208	9,536,036	24,309,049	3,870,000	6,084,000	8,953,714	13,393,514
<i>Cents in the dollar return for Group Member Claimants</i>									
Cash		5.3 c/\$	8.9 c/\$	4.1 c/\$	5.1 c/\$	0.0 c/\$	0.0 c/\$	3.2 c/\$	3.6 c/\$
Equity		0.0 c/\$	0.0 c/\$	7.1 c/\$	23.5 c/\$	4.6 c/\$	7.2 c/\$	7.3 c/\$	12.2 c/\$
Total		5.3 c/\$	8.9 c/\$	11.2 c/\$	28.6 c/\$	4.6 c/\$	7.2 c/\$	10.5 c/\$	15.8 c/\$

Note: There is material uncertainty on whether Group Member Claimants will be entitled to a cash dividend under the "Enhanced Cheadle Proposal" as the dividend may be converted to a "dividend reinvestment" at the sole unfettered discretion of SSAU. Refer to highlighted cells.

Appendix 5 - Estimated Return to Creditors

SGL Notes

Note PR

These line items have not materially changed since the issue of the Report to Creditors. Refer to **Appendix 14** of the Report to Creditors for explanatory notes.

Note 1

Westpac holds \$898K in a blocked account as security for bank guarantees (\$454k) 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 "Enhanced Cheadle Proposal", it is understood that Westpac will continue to provide the bank guarantee and merchant facilities and the funds secured by the blocked account will not be released to the Deed fund.

Note 2

Refer to SHPL note 4 for the EziBuy Proposal and the "Enhanced Cheadle Proposal". The distribution to SGL under a Liquidation scenario is based on a return to unsecured creditors between 3.6 and 6.6 cents in the dollar.

Note 3

Calculations of value of shares in EziBuy, SGL (Cheadle Group Proposal) and SSAU ("Enhanced Cheadle Proposal"). Additional notes to the calculations are detailed below and on the following slide.

AU\$	Notes	EziBuy Proposal		Cheadle Group Proposal		"Enhanced Cheadle Proposal"	
		Low	High	Low	High	Low	High
Future maintainable EBITDA							
EziBuy	i	16,818,640	22,165,818	-	-	-	-
SGL	ii	1,990,000	2,290,000	1,990,000	2,290,000	1,990,000	2,290,000
Less annual ASX listed company costs	iii	-	-	(700,000)	(600,000)	(700,000)	(600,000)
		18,808,640	24,455,818	1,290,000	1,690,000	1,290,000	1,690,000
EBITDA Multiple	iv	10.0x	12.0x	10.0x	12.0x	10.0x	12.0x
Enterprise Value		188,086,401	293,469,813	12,900,000	20,280,000	12,900,000	20,280,000
Less debt	v	-	-	-	-	-	-
Equity value		188,086,401	293,469,813	12,900,000	20,280,000	12,900,000	20,280,000
Private company shareholder discount	vi	20.0%	15.0%	N/A	N/A	20.0%	15.0%
Shareholder value		150,469,121	249,449,341	12,900,000	20,280,000	10,320,000	17,238,000
% of shares to be issued to Subordinate Creditors		4.0%	8.0%	30.0%	30.0%	60.0%	60.0%
Amount available to Subordinate Creditors		6,018,765	19,955,947	3,870,000	6,084,000	6,192,000	10,342,800

Appendix 5 - Estimated Return to Creditors

SGL: Estimated Return to Creditors (continued)

Additional Notes:

- i. EBITDA based on information provided by EziBuy.
- ii. As per normalised management forecasts.
- 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".
- 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.
- v. As per management accounts, not including any future debt.
- vi. Discount reflects the risk of a "liquidity event" not occurring within 3 years and shareholders owning shares in a private company that has an illiquid market for its shares.
- vii. The Cheadle Circular states that the estimated value of SSAU is between \$26.25m - \$43.75m, the Administrators have requested details of how that value has been calculated but no information has been provided.

SGL: Estimated Return Shareholders

- For the benefit of Group Member Claimants who remain shareholders of SGL, detailed below is the estimated aggregate value of the shares that current shareholders will receive in EziBuy, SGL (Cheadle Group Proposal) and SSAU ("Enhanced Cheadle Proposal").

AU\$	Notes	EziBuy Proposal		Cheadle Group Proposal		"Enhanced Cheadle Proposal"	
		Low	High	Low	High	Low	High
Shareholder value		150,469,121	249,449,341	12,900,000	20,280,000	10,320,000	17,238,000
% of shares to be issued to Shareholders		1.0%	2.0%	47.9%	47.9%	15.0%	15.0%
Amount available to Shareholders		1,504,691	4,988,987	6,172,650	9,703,980	1,548,000	2,585,700