

FOURTH COMMITTEE OF CREDITORS MEETING

**Retail Adventures Pty Ltd (Administrators Appointed)
("the Company")**

**Held at the Offices of Deloitte Touche Tohmatsu
Level 9 Grosvenor Place, 225 George Street, Sydney NSW 2000
On Wednesday, 13th February 2013 at 11.00 am (AEDT)**

This is the annexure of 10 page(s)
marked referred to in the Form 5011 signed
by me/us and dated

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Signature

Present: Vaughan Strawbridge Administrator, Deloitte Touche Tohmatsu
Dan Rose Deloitte Touche Tohmatsu
Teresa Chan Deloitte Touche Tohmatsu

In Attendance: The following Committee members were in attendance in person or by phone:

Representative	Creditor	Attending?	By Phone/ In person?
Tina McGregor	Signet	✓	In person
Chris Noel	TNW Australia Pty Ltd	✓	By Phone
Tina Shur	Mr. Fothergill's Seeds Pty Ltd	✓	By Phone
Damien Hodgkinson	DSG Holdings Australia Pty Limited	X	X
Matt Toner	National Union of Workers	X	X
Wayne Leslie	Basford Brands	✓	By Phone
Chris Kinden	Webb Distribution	✓	By Phone
Todd Horrell	Stockland Trust	✓	By Phone

Absentees: Damien Hodgkinson – DSG Holdings Australia Pty Limited (“DSG”)
Matt Toner – National Union of Workers

Opening of Meeting: At 11:05am (AEDT) on Wednesday, 13 February 2013 Vaughan Strawbridge declared the meeting open.

Vaughan Strawbridge stated that this is the Fourth Committee of Creditors meeting of Retail Adventures Pty Limited (Administrators Appointed) and it will be referred to as RAPL or the Company for the period of the meeting.

He introduced himself as one of the Joint and Several Administrators of the Company. He stated that his Joint and Several Administrators David Lombe and John Greig are not present and he passed on their apologies.

He then introduced members of his staff present at the meeting, being Dan Rose and Teresa Chan of Deloitte, both assist with the day-to-day carriage of the matter.

He saw that the Committee member present had signed the attendance register and noted that those members attending by teleconference would be taken as having signed the attendance register.

Appointment of Chairperson:

Mr Strawbridge stated that Pursuant to Regulation 5.6.17(1) of the Corporations Regulations, he was the Joint and Several Administrator and therefore will occupy the Chair.

The Chairperson asked if there were any objections to him occupying the Chair. There were no objections.

Tabling of Documents:

The Chairperson tabled the following documents:

- Notice of the Meeting of the Committee of Creditors dated 6 February 2013
- Remuneration Report dated 6 February 2013

There were no objections to the tabling of the documents and the Chairman noted the tabled documents as being read.

Time and Place of Meeting:

The Chairperson asked if there were any objections that the time and place was not convenient to the Committee members. There were no objections. Therefore pursuant to Regulation 5.6.14 of the Corporations Act 2001, he declared that the meeting was held at a time and place most convenient for the majority of persons entitled to receive notice of the meeting.

Quorum:

As a majority of members of the Committee of creditors are present, the Chairperson declared, in accordance with Regulation 5.6.16 of the Corporations Act 2001, that a quorum was present for this Committee of Creditors Meeting.

Voting on Resolutions:

The Chairperson advised that all motions are to be resolved on the voices, unless a poll is demanded (Regulation 5.6.19 and 5.6.20).

He asked that when a motion is called, could those who are in favour of the motion call aye and those against nay.

He stated that there are options for creditors to demand a poll. If creditors require more information regarding a poll at the time of voting on resolutions, please ask.

Confidentiality

- Information discussed and provided in this meeting is confidential and is not to be used for any other purpose
- Confidentiality agreements have been executed by all Committee members

Agenda:

The Chairperson stated that the agenda for today's meeting was to:

- Provide an update on the investigations of the affairs of the Company
- Provide the Committee with an update on the sale of business
- Advise the Committee of the application to Court for a further extension of the convening period
- Provide an update regarding the status of the Administration
- To consider and if thought fit approve the Administrators' remuneration for the period 1 February 2013 to 28 February 2013
- Any other business the Committee may wish to discuss.

Investigations

The Chairperson provided an update on the Administrators' investigations into the affairs of the Company:

Access to books and records

- The Administrators have reviewed a significant quantity of email correspondence. The network drive has been imaged to access emails containing approximately 2TB of information, which equates to more than 250,000 emails.
- The Administrators have also reviewed:
 - Monthly Management Accounts / Bank Reports
 - Financials / Budgets and Forecasts
 - Emails to and from key staff members
 - Deeds of settlements with suppliers
 - Correspondence with auditors and advisors
 - Board Reports / Minutes of meetings
 - Correspondence with suppliers
- An important focus of the investigation is on the creditor position and ageing of creditors.
- The Administrators have encountered difficulties as the Company's systems were unable to produce an aged creditor listing by month. The Administrators have reconstructed this by sourcing and sorting 350,000 individual line items.
- This is a large investigation and we have a significant amount of information to review. The investigation is taking longer than expected.

Preference payments

- The Administrators have conducted investigations in respect of potential preference payments to related and non-related creditors.
- Non-related creditors:
 - Reports have been reconstructed to show payments made in the relation back period.

- The Administrators have identified that c.1,000 suppliers have received c.\$250m in the six months prior to administration. We are reviewing these payments and have identified a number that may meet the criteria of preference payments.
- Related creditors:
 - The Administrators have identified and are investigating two payments that were made to related creditors in October 2012.
- The Administrators' investigations continue, particularly in relation to recoveries that could be available in respect of preference payments that may have been made.

Insolvent trading

- The Administrators have spent a significant amount of time investigating whether or not the company traded whilst insolvent.
- The investigation is complex, and further work is required to determine the quantum of potential claims, which may result in recoveries that could be available to creditors.
- The director may have potential defences available in respect of an insolvent trading claim.
- Investigations are continuing to quantify potential recoveries.

Validity of security

- The secured creditor of the Company is Retail Adventures Holdings Pty Ltd (Administrators Appointed).
- The secured debt is approximately \$77m.
- The level of secured debt could potentially be reduced.
- This is due to the fact that this portion of the secured debt was advanced prior to the perfection of security.
- Further investigations and legal advice are required to determine:
 - Whether or not the extension of the loan was for fair consideration; and
 - Whether or not the Company was insolvent at the time the charges were granted.
- If liquidators are appointed, there may be an action to bring against the secured creditor to reduce the level of secured debt. In this event, additional cash may be recoverable from the purchaser of the business (if completion occurs).
- To secure creditors' interests in this event, first ranking security will be taken over the assets of the purchaser on completion of the sale.

Convertible notes

- Retail Adventures Holdings Pty Limited held \$68m in unsecured redeemable convertible notes in the Company.
- These convertible notes may be subordinated to unsecured creditors.
- Further investigations and legal advice will be required, but it may result in a greater return to unsecured creditors.

Related party transaction

- Bicheno Investments Pty Ltd lent \$1.9m to the Company in June 2011. The transaction was recorded as part loan and part payment for 66 motor vehicles.
- The transfer was done at book value.
- The Administrators are assessing the value of the motor vehicles, but if the vehicles were transferred at below market value, then it could be challenged by a liquidator.

Sale of business

The Chairperson then provided a brief summary of offers for the business:

- Two parties had expressed an interest in the business as a whole and one party was interested in the lease portfolio.
- Only DSG and one other interested party submitted indicative offers for the whole business.
- DSG's offer was for \$58.9m. The other party's offer was significantly lower and was subject to due diligence.
- On 11 February 2013, the Administrators exchanged contracts with DSG for the sale of the business at \$58.9m.
- The key terms of the sale are:
 - Purchase price of \$58.9m, subject to adjustments below;
 - All employees entitlements are to be assumed or paid by DSG;
 - The Administrators will continue to licence the premises and key contracts to DSG whilst assignments and new leases are negotiated;
 - The Company will continue to make employees available to DSG while DSG negotiates new leases or assignment of existing leases. DSG will make employment offers to the Company's employees when premises have been secured;
 - Payments in cash have been made to the Administrators for employees who have been made redundant to date, and for any employees who are not ultimately offered employment by DSG;
 - The purchase price is adjusted for employee entitlements assumed and monies pre-paid to the Administrators for stock and to cover redundancies to date. DSG will provide first ranking security to secure the entitlement of any employees who are not offered comparable employment with DSG or who do not take up an offer of employment from DSG;
 - The Administrators will retain sufficient cash to complete their investigations and report to creditors; and
 - The balance of the purchase price will be applied against DSG's secured debt. In the event of liquidation and the secured debt being reduced below the adjusted purchase price, the balance would be payable in cash. To secure the unsecured creditors interests in the event that cash is payable, the Administrators will take first ranking security over all the assets of DSG sufficient to meet any cash payment in full.

- This will provide a much better result than closure, preserving the jobs of up to 4,700 employees.
- It may also result in a lower level of unsecured creditors as landlord claims should be minimised.

Extension of the Convening Period

The Chairperson then discussed the Administrators' intention to seek a further extension of the convening period:

Purpose for the further extension is to provide time –

- For the transitional arrangements to take place following the sale of the business:
 - DSG require the additional time to take assignment of the leases
 - If this extension condition is not met, DSG can terminate the sale agreement or waive this condition.
- For the Administrators to conduct further investigations into the affairs of the Company
- For the Director or others to propose a Deed of Company Arrangement

Application to Court

- An application to extend the convening period is being made to assist the Administrators to achieve the purposes of the Administration, which is to maximise the return to creditors.
- The application is listed for hearing before Justice Jagot in the Federal Court, Queens Square, Sydney at 9.30am on Wednesday 20 February 2013.
- The Joint Administrators believe that an extension to the Convening Period will be in the best interests of creditors and will allow the Administrators time to complete their investigations, to complete the sale of business to DSG and consider any Deed of Company Arrangement that may be forthcoming.
- The Administrators sent a circular on 12 February 2013 to all employees and unsecured creditors notifying them of the extension. This notice was also made publicly available on the Administrators' website.

Questions

Tina McGregor of Signet asked the following questions:

1. If the convening period is extended by 180 days, what is the actual date that the sale of business occurs?
2. When will the creditors know if the extension of convening period has been granted?
3. What is the difference in outcome for the Company if the Company is put into liquidation versus a Deed of Company Arrangement?

In response to these questions, the Chairperson advised:

1. The completion date for the sale will still be 1 March 2013.
2. The Administrators expect to know after the hearing on 20 February 2013. All creditors will be notified of the outcome.

3. The Administrators are expecting to receive a Deed of Company Arrangement before they send their Section 439A report to creditors. The two scenarios will be presented to creditors with a comparison of the likely outcome for creditors under each scenario, together with the Administrators' recommendation.

**Resolution re:
extension of the
convening period**

The Chairperson then proposed the following resolution for the Company:

"The Committee of Creditors provides its support for the Joint Administrators application to the Federal Court on Wednesday 20 February 2013, for an extension to the Convening Period for a period of 180 days."

Four committee members voted in favour of the motion.

Chris Kinden of Webb Distribution objected.
Chris Noel of TNW Australia Pty Ltd abstained from voting.

The Chairperson declared that by majority, the motion was carried.

The Chairperson asked Chris Kinden if he would like to advise the Committee of the reasons for his objection or if he had any questions in respect to the extension application. Mr Kinden declined to make any comment.

**Status of the
Administration**

Current position snapshot

The Chairperson provided a current position snapshot of the Administration:

Cash at Bank

- The Administrators have a cash at bank balance of \$15.5m
- The Administrators are operating four bank accounts:
 - Trading account (\$5.34m) – operating bank account for trading receipts and payments
 - Licence account (\$10.02m) – bank account for funding commitments payable by DSG under the licence
 - Stock account (\$174,000) – used to pay suppliers for the release of stock on water / at wharf
 - USD account (\$8,000) – used to pay suppliers in US\$ for the release of stock on water / at wharf

Inventory

- The stock levels were c.\$68m as at 10 February 2013.
- Under the licence terms DSG is required to keep inventory levels at a minimum of \$70m. The reason for this threshold is to ensure that there would be sufficient inventory to cover employee entitlements in the event of a full store shutdown. As such, the aim is to maintain the "Employee entitlements cover" ratio (Inventory/ Employee entitlements) at roughly 3:1.
- Whilst the stock level is below \$70m, between stock on hand and surplus cash, the level is well above \$70m.
- The Administrators continue to track stock levels to ensure it is continuously replenished.

Store closures and leases

- There has been little movement in store closures. Approximately 7 stores have been closed by the Administrators since the last committee meeting.

Staff redundancies

- The total number of employees made redundant through the Administration is 962 employees, including casuals.
- To date the Administrators have paid out \$4.9m of entitlements with an estimated further \$1.5m to be paid over February / March.
- DSG has funded all termination payments to date.

Administrators' remuneration

The Chairperson took the Committee through the consideration of fees for acting as Administrators of RAPL. The material was drawn heavily from the Remuneration Report contained as part of the circular to Committee members.

Administrators' remuneration: 1 Jan 2013 – 31 Jan 2013

The Chairperson stated:

- From 1 January 2013 to 31 January 2013, actual Administrators' remuneration incurred was \$727,432.50.
- The actual fees incurred were \$414,952.50 less than the estimate approved by the Committee by way of resolution proposed at the Second Meeting of Creditors held on 11 January 2013.
- These fees have not been drawn to date and only the lesser amount will be drawn.

Disbursements

- Disbursements are divided into three types: A, B1, and B2.
- A – disbursements are all externally provided professional services. These are recovered at cost. An example of an A disbursement is legal fees.
- B1 – disbursements are externally provided non-professional costs such as travel, accommodation and search fees. B1 disbursements are recovered at cost.
- B2 – disbursements are internally provided non-professional costs such as photocopying, printing and postage which are charged at 2.5% of standard time costs
- Disbursements for the period 1 January 2013 to 31 January 2013 are:

Disbursement	Amount (\$)	GST (\$)	Total (\$)
Deloitte Digital - Online Data Room	5,500.00	550.00	6,050.00
TOTAL	5,500.00	550.00	6,050.00

Remuneration for Deloitte Risk Services

The Chairperson also stated:

- The Administrators engaged Deloitte Risk Services to undertake an Occupational Health and Safety Assessment of the business following their appointment.

- Disbursements for the period 26 November 2012 to 14 January 2013 are:

Disbursement	Amount (\$)	GST (\$)	Total (\$)
Photocopying telephone & faxes	110.25	11.03	121.28
Travel -Taxi/train/tolls/parking/mileage	439.01	43.90	482.91
TOTAL	549.26	54.93	604.19

**Resolution re:
remuneration for
Deloitte Risk
Services**

The Chairperson then proposed the following resolution for the Company:

“That the remuneration of Deloitte Risk Services, their partners, and staff, for the period of the Administration from 26 November 2012 to 14 January 2013 is fixed at a sum equal to the cost of time spent by Deloitte Risk Services and the Deloitte Risk Services’ partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 6 February 2013 of fees equalling \$15,465.50 plus GST, plus disbursements and GST, and that the Administrators can pay the remuneration as required.”

The Chairperson declared the motion carried unanimously on the voices.

**Administrators’
remuneration:
1 Feb 2013 – 28
Feb 2013**

The Chairperson explained work was forecasted to take place in each of the key areas:

Assets:

- Dealing with completion precedents in the sale agreement
- Dealing with conditions subsequent to sale
- Internal post completion and settlement matters
- Liaising with the purchaser on post completion matters

Creditors:

- Receive and follow up creditor enquiries
- Holding of Committee of Creditor meetings (where applicable)
- Receiving, assessing and settling / rejecting retention of title claims
- Preparing 439A report, investigation, meeting and general reports to creditors

Employees:

- Finalise staff redundancy program
- Finalisation of employee entitlements
- Deal with queries from employees regarding payment and deductions

Trade on:

- Finalisation of administrator’s accounts and liabilities
- Closure of trading accounts and payment of final invoice
- Assisting with the assignment of supplier contracts to the purchaser

Investigations:

- Review of specific transactions and liaising with directors regarding certain transactions
- Preparation of investigation file and statutory investigation reports

Administration:

- Insurance arrangements for Administrators stores and DSG stores
- Reconciliation of pre and post Administration cash and EFTPOS receipts
- Filing of documents

**Resolution re:
remuneration for
1 Feb – 28 Feb**

The Chairperson then proposed the following resolution for the Company:

“That the remuneration of the Administration from 1 February 2013 to 28 February 2013 is fixed at a sum equal to the cost of time spent by the Administrators and the Administrators’ partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 6 February 2013 of \$975,450.00 plus GST, plus disbursements and GST, and that the Administrators can draw the remuneration as incurred. Should a lesser amount be actually incurred, only the lesser amount will be drawn. Should the fees be a greater amount then that amount will be subject to a separate fee approval and will not be drawn until approved.”

The Chairperson declared the motion carried unanimously on the voices.

Any other business

The Chairperson asked if there was any other business the Committee members wanted to raise / discuss. There was nothing further.

Closure of meeting

The Chairperson declared the meeting closed at 11:55am and thanked the Committee members for their attendance



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V N Strawbridge
Chairperson
Dated: 19 February 2013