

TO ALL CREDITORS

1 July 2014

Dear Sir/Madam

Retail Adventures Pty Limited ABN 37 135 890 845 (In Liquidation) ('RAPL') ('the Company')

The purpose of this circular is to provide a brief update on the progress of the liquidation.

1. Appointment of Receivers & Managers and Voluntary Administrators to DSG Holdings Australia Pty Ltd ('DSG')

I was informed late on 30 June 2014 by the solicitor acting for Ms Jan Cameron that Mr David Winterbottom and Mr Rahul Goyal of Korda Mentha had been appointed as Receivers & Managers over DSG by Bicheno Investments Pty Ltd ('Bicheno'), who held security over DSG.

The directors of DSG have appointed Mr Steve Nicols from Nicols + Brien as Voluntary Administrators.

I have no information regarding the intentions of the Receivers to trade the business. If you have any questions regarding the ongoing trading of DSG please contact Korda Mentha.

2. Committee of Inspection

At the meeting of creditors held on 11 March 2014, a resolution was passed appointing the following creditors to be on the Committee of Inspection:

	<u>Creditor</u>	<u>Representative</u>
1	Bicheno Investments Pty Ltd	Wendy Jacobs (subsequently replaced by Dominic Calabria of Bridges Lawyers)
2	Gummie Pty Ltd T/A Group Building	Michael Giannak
3	Helenic Pty Ltd ATF Mastrantonis Family Trust	Nick Mastrantonis
4	JFK Group Company Limited	Fiona Goh
5	Mr. Fothergill's Seeds Pty Ltd	Tina Shur
6	PMP Print Pty Ltd T/A PMP Distribution	Verica Pavlovska

Three meetings of the Committee of Inspection have been held. The minutes of these meeting are posted on the Deloitte website: <http://www.deloitte.com/au/retailadventures>.

3. Public examinations and notices to produce

On 14 April 2014 our lawyers applied to the Supreme Court seeking orders for production and examination summonses under sections 596A and 596B of the Corporations Act.

The purpose of the public examinations and orders for production was to obtain further information from relevant parties to assist in our ongoing investigations, our assessment of the prospects of success of a number of potential claims including unfair preferences, uncommercial transactions and insolvent trading, and the likely recoveries in the event these claims were to succeed.

Orders for production of documents relating to RAPL were issued against the following parties:

1. Jan Cameron – former director
2. Penny Moss - former director, COO and in-house counsel
3. Bruce Irvine - former director
4. Lawler Draper Dillon - personal accountant to Jan Cameron and accountants to the Jan Cameron Trust
5. KPMG - former auditor and adviser on the purchase of the RAPL business, turnaround of the RAPL business
6. Watson Mangioni Lawyers - prepared the security documents subject to S588FE action
7. DEM Australasia Pty Ltd and Damien Hodgkinson - restructuring adviser to Jan Cameron
8. Insurers
9. DSG Holdings Australia Pty Ltd – related entity
10. Bicheno Investments Pty Ltd as trustee of the Jan Cameron Trust - related entity

We also sought examination summonses to be issued against Bruce Irvine and Jan Cameron. Our original intention as to conduct the examinations in May however the dates have been rescheduled to 4 July 2014 as the deadline to produce documents and the week commencing the 4 August for public examinations. The dates were rescheduled as a result of an agreement to enter into settlement discussions with Jan Cameron, DSG and Bicheno which is discussed further below.

A copy of our formal notice to creditors of the public examinations is attached.

4. Voidable security claim pursuant to section 588FE of the Corporations Act 2001 ('S588FE Proceedings')

This claim concerns a portion of the \$77.6m in loans to RAPL by Bicheno and DSG via Retail Adventures Holdings Pty Ltd (In Liquidation) ('RAHPL'). As stated in our report to creditors dated 19 August 2013 ('S439A Report'), our investigations indicated that \$49.77m of this amount could be voidable or invalid. This is because these loans were granted on an unsecured basis and then later secured. We are of the view the security was given at a time that RAPL may have been insolvent and is therefore voidable.

Under the business sale agreement with DSG, part of the sale price paid by DSG was offset against these secured loans. If the security was found voidable under s 588FE of the Corporations Act), the amount payable to RAPL by DSG could be approximately \$13.8m.

As part of the negotiations for the sale of the business to DSG, DSG and Bicheno provided a first ranking general security agreement ('GSA') over the assets of DSG up to \$13m. This security originally expired on 30 June 2014, however this was extended initially until 31 July 2014 and then until 31 October 2014.

On 1 April 2014 our lawyers lodged an affidavit in the Supreme Court of NSW seeking leave to proceed in lodging a claim against RAHPL under S471B of the Corporations Act. Orders allowing leave to proceed were made on 10 April 2014 and the statement of claim was lodged with the court on that day. At the time of lodging the claim we received advice that DSG intended to apply to court for DSG to seek leave to be joined to the action. This would enable DSG to defend the action in circumstances where the Liquidators of RAHPL have no funds to defend the claim. At a directions hearing on 8 May 2014 the registrar made orders that DSG be granted leave to be joined to the proceedings as the second defendant.

The court also made orders that DSG file and serve any points of defence on or before 19 May 2014 and the matter be listed for further directions and case management on Monday, 26 May 2014.

The outcome of this claim is further discussed below at point 6.

5. Settlement discussions

As outlined in the S439A Report there are considerable risks and costs associated with embarking on litigation:

- Costs - we have been in discussion with Bentham IMF Limited regarding the funding of the costs for conducting public examinations, the S588FE Proceedings and potential insolvent trading actions. If successful a significant portion of any recovery would be taken by the litigation funder, estimated in this case to be 35%.
- Timing – legal actions can take significant time to resolve, possibly greater than 12-24 months
- Risks – there are risks around whether the actions will be successful and the parties having the capability to meet any favourable judgment.

These risks and costs were outlined in the report and were considered by the Liquidators when framing our conclusions.

Prior to finalising a funding agreement, I sought to explore the possibility of a settlement of the potential claims against Jan Cameron and her related entities. Any litigation funding agreement once signed would include a percentage recovery of any settlement being payable to the litigation funder, therefore we would be requiring a higher amount in order to return the same dividend to creditors.

Discussions to seek to settle the various claims were slowed in part by a change in her legal advisors.

In early May a deed of deferral was agreed whereby we agreed to delay the S588FE proceedings and public examinations by two months and Ms Cameron has agreed to extend the Liquidators' security over DSG by three months in order to enable the parties to seek to resolve the various disputes using a formal mediation procedure.

The mediation was originally due to be held by 13 June 2014 but was rescheduled until 1 July 2014 so that all relevant parties could be present.

6. Settlement of S588FE Proceedings and Assignment of GSA

Subsequent to agreeing to the terms of the settlement discussions, I received an offer through Ms Cameron's legal advisers from DSG and Bicheno to enter into a deed of settlement regarding the S588FE Proceedings and the General Security Agreement held by RAPL over DSG and the proposed settlement of a preference claim.

Following a period of negotiation, I agreed to the following proposal subject to approval of RAPL's Committee of Inspection:

- Immediate payment of \$3.95 million to the Liquidators.
- DSG, Jan Cameron and Bicheno withdraw all proofs of debt and release RAPL from their claims in the liquidation of RAPL (totalling c.\$38.4m).
- The Liquidators are not prevented from pursuing insolvent trading claims against the directors of RAPL.
- The Liquidators agree not to pursue DSG for insolvent trading.
- The Liquidators agree not to pursue Bicheno for insolvent trading. This was agreed to on the basis of a warranty provided by Bicheno and Jan Cameron that at all times since October 2010, Bicheno held the shares in DSG, and was required to exercise all powers in respect of those shares, in a fiduciary capacity as trustee of the Jan Cameron Trust. This enabled me to be satisfied that Bicheno was not a holding company for the purposes of section 588V of the Corporations Act and would not therefore be liable for an insolvent trading claim.
- DSG's debt in RAHPL and security over RAHPL to be assigned to RAPL.
- Bicheno agree to pay a total of \$1.05 million to the Liquidators and creditors who brought the application to set aside the deed of company arrangement in satisfaction of cost orders relating to the S600A application and appeal.
- The GSA held by RAPL over DSG to be assigned to Bicheno or its nominee.
- The Liquidators agree to discontinue the S588FE proceedings against RAHPL and DSG.

A part of the negotiations also included a settlement of a preference claim against a supplier.

I convened a Committee of Inspection meeting on 11 June 2014 at which I outlined my reasons for recommending that the proposal be accepted and the committee members passed a resolution approving the Liquidators entering into a Deed of Settlement and related documents encompassing the above terms.

I confirm I have received the settlement funds including in respect of the preference claim into RAPL's liquidation bank account.

7. Mediation

A mediation was held today as referred to above. Unfortunately the mediation was unsuccessful and no proposal was received to settle the insolvent trading claim against Jan Cameron which I considered would be appropriate to be put to the Committee of Inspection for consideration or for me to seek Court approval of a settlement based on that proposal.

I am unable to disclose any further information on discussions that took place in the mediation. All parties attending the mediation were required to sign a confidentiality agreement whereby no details of the mediation can be disclosed. This is the usual process for all mediations.

I will now be pressing ahead with the timetable for notices to produce, to conduct the public examinations as outlined above and pursuing the action for insolvent trading.

If you have any queries in relation to the above, please contact Teresa Chan of my office on (02) 9322 3834 or by email at terchan@deloitte.com.au.

Yours faithfully



Vaughan Strawbridge
Joint and Several Liquidator

Corporations Act
Section 596E

NOTICE TO CREDITORS

**IN THE SUPREME COURT OF NEW SOUTH WALES
DIVISION: EQUITY
REGISTRY: SYDNEY**

No 2014/112854

IN THE MATTER OF RETAIL ADVENTURES PTY LTD (IN LIQUIDATION) ACN 135 890 845

Vaughan Neil Strawbridge, John Lethbridge Greig and John Frank Lombe, each in our capacity as the joint and several Liquidators of Retail Adventures Pty Ltd (in liquidation) ACN 135 890 845 ('**RAPL**') wish to notify the creditors of RAPL that the Supreme Court of New South Wales, Sydney Registry, has summonsed each of the following individuals for examination pursuant to section 596A of the *Corporations Act 2001* (Cth):

- Janet Heather Cameron; and
- Bruce Robertson Irvine.

The examinations are due to commence on 4 August 2014 at 11.00 am in the Supreme Court of New South Wales, located at the Law Courts Building, 184 Phillip Street, Sydney. Each of the examinees will be examined about the examinable affairs of RAPL. The examinations will continue until such time as the examinees are excused by the Court.

Dated 1 July 2014

VAUGHAN NEIL STRAWBRIDGE, JOHN LETHBRIDGE GREIG
AND DAVID JOHN FRANK LOMBE
Joint and several liquidators of RAPL
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