

CIRCULAR TO ALL CREDITORS AND EMPLOYEES

12 February 2013

Dear Sir/ Madam

Re: Retail Adventures Pty Limited ABN 37 135 890 845 (Administrators Appointed) (“RAPL”)
Retail Adventures Holdings Pty Limited ABN 41 136 178 839 (Administrators Appointed) (“RAHPL”)

I refer to the appointment of David John Frank Lombe, John Lethbridge Greig and I as Joint and Several Administrators of RAPL on 26 October 2012 and RAHPL on 7 November 2012, pursuant to Section 436A of the *Corporations Act 2001* (“the Act”).

The purpose of this circular is to advise creditors and employees of our intention to make an application to the Federal Court of Australia for a further extension of the convening period. As part of that purpose and to address the reasons for the extension we provide an update on the status of our investigations and advise of the sale of the business. The structure of this letter is as follows:

1. Status of our investigations
2. Sale of business as a going concern
3. Application for a further extension of the convening period

1. Status of our investigations

In our Report to Creditors pursuant to Section 439A of the Act we will report to you on the likely outcome or return to creditors in the event of liquidation and how this may compare with any Deed of Company Arrangement which may be proposed. In this report we will detail the findings of our investigations which may include actions for:

- Insolvent trading
- Voidable transactions
 - Unfair preferences (Section 588FA)
 - Uncommercial transactions
 - Unfair loans to a company
 - Unreasonable director related transactions
 - Transactions with the Purpose of Defeating Creditors
 - Circulating security interest created within 6 months before the relation back day.

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As the secured creditor is a related party one of our key investigations to date has been to determine if there are any actions which a liquidator could bring which would result in a reduction of the secured indebtedness of RAPL or RAHPL.

Our investigations to date have resulted in us identifying that the security granted for between \$39m and \$50m of the \$77m of "secured debt" may be subject to challenge by a liquidator. This is due to the fact that this portion of the secured debt was advanced prior to the perfection of security.

Our investigations are continuing and in particular relate to recoveries that may be available for insolvent trading and from suppliers in respect of preference payments that may have been made. While we have identified the existence of potential actions we have not finalised the quantification of these claims or likelihood of success and recovery by a liquidator at this time.

A detailed report of our findings when complete will be provided in our report to creditors pursuant to section 439A of the Act.

2. Sale of business as a going concern

We are pleased to advise that on 11 February 2013 we exchanged contracts to sell the business of RAPL for \$58.9m to DSG Holdings Australia Pty Limited (DSG). Having conducted a public sale process this was the highest offer received for the business and ensures the continued employment of approximately 4,700 employees.

The sale is complex and will require significant time to fully transition contracts, leases and employees to DSG. Given this, the sale is contingent on achieving a 180 day extension of the convening period to enable this to occur.

Key terms of the sale are:

1. Purchase price of \$58.9m, subject to adjustment's below
2. All employees entitlements to be assumed or paid by DSG
3. Continuing licence of premises and key contracts to DSG whilst assignments and new leases are negotiated
4. RAPL will continue to make employees available to DSG while DSG negotiates new leases or assignment of existing leases. DSG will make employment offers to RAPL employees when premises have been secured
5. Payment in cash to the Administrators for employees who have been made redundant to date and any employees who are not ultimately offered employment by DSG
6. 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
7. The Administrators will retain sufficient cash to complete their investigations and report to creditors
8. The balance of the purchase price is being 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, we are taking first ranking security over all the assets of DSG sufficient to meet any cash payment in full.

This is a much better result than if the business was not sold as a going concern, a closure would have resulted in termination of the 4,700 employees of the business. It is also important to note that any actions which a liquidator may have are preserved should RAPL or RAHPL ultimately be placed in Liquidation at the second meeting of creditors.

3. Application for a further extension of the Convening Period

We intend to bring an application requesting a further extension of 180 days, in the Federal Court of Australia on 20 February 2012 at 9.30am.

Extending the convening period for a further 180 days is a condition of the sale to DSG. The Administrators reasons for seeking the extension are as follows:

- The sale of the business is for the best price achievable and substantially better than a close down scenario.
- The sale preserves creditors' rights via a liquidator to challenge the security position and other potential claims/actions. It also:
 - reduces the potential liability to landlords and employees and consequently the size of the creditor pool through the mitigation of lease liabilities and transfer of employment
 - secures ongoing employment for up to 4,700 people
 - Ensures continuity of supply to customers and trade with key suppliers
 - Satisfies the objectives of the administration provisions of the *Corporations Act* by enabling the business to continue in existence
 - An extension is a condition of sale and is required to provide time to achieve the assignment or entry into new leases, key contracts and transfer of employees.

We are also convening a meeting of the Committee of Creditors to discuss in more detail the extension of the convening period, sale of the business and status of our investigations. We will be seeking their support for the extension of the convening period.

Creditors and employees are not required to take any further action at this stage unless they object to the Administrators application seeking an extension to the convening period. Creditors who object to the Administrators application or require further information can contact our lawyers, through Ms Christine Hilder of Herbert Smith Freehills (Christine.Hilder@hsf.com), phone number +61 2 9225 5858.

We will advise creditors and employees of the outcome of the application to the Federal Court of Australia.

Yours sincerely



Vaughan Neil Strawbridge
Joint and Several Administrator