

Deloitte.



Retail Adventures

Retail Adventures Pty Ltd (Administrators Appointed)

ACN 135 890 845

First Creditors' Meetings

Wednesday 7 November 2012 11.00am AEDT

First Creditors' Meetings

Retail Adventures Pty Ltd (Administrators Appointed)
ACN 135 890 845

Opening of the meeting by the Chairperson
Vaughan Strawbridge, Deloitte – Joint Administrator

Introduction by Chairperson

Chairperson Vaughan Strawbridge, Joint Administrator

David Lombe – Deloitte, Joint Administrator

Vaughan Strawbridge – Deloitte, Joint Administrator

John Greig – Deloitte, Joint Administrator

Date of Appointment: 26 October 2012

Agenda

- Purpose & Process
- Formalities
- Appointments
- Actions since appointment
- Reason for failure
- Strategy
- Investigations
- Operations
- Questions
- Voting/resolutions
- Creditors' Committee Appointment
- Any other resolutions
- Questions and any other business
- Closure

Purpose & Process

Voluntary Administrations are a flexible and cost effective form of administration with the stated aim to:

“maximise the chances of a business continuing in existence or at the very least, provide a better return to creditors” (Section 435A)

A Voluntary Administrator can only be appointed by

- The company
- A secured creditor
- A Liquidator of the company, or
- A Provisional Liquidator of the company

Purpose & Process

Section 438A - The primary function of an Administrator is to investigate the affairs of the company as soon as practicable, and form an opinion as to whether:

- The company enter into a Deed of Company Arrangement
- The administration end and control of the company be returned to the directors, or
- The administration end and the company be wound up

Purpose & Process

The process has four distinct phases:

- Administrators' appointment & First Meeting
- Investigation period
- Second (439A) Meeting of creditors
- Implementation of the agreed course of action

Purpose & Process

The Second (439A) Meeting:

The Administrators will have conducted an investigation into the affairs of the company

Purpose of the meeting is to resolve one of the following:

- The company enter into a Deed of Company Arrangement
- The administration end and control returned to the directors, or
- The administration end and the company be wound up

Creditors have the benefit of the Administrators' report and must resolve which of the three alternatives they wish the company to adopt

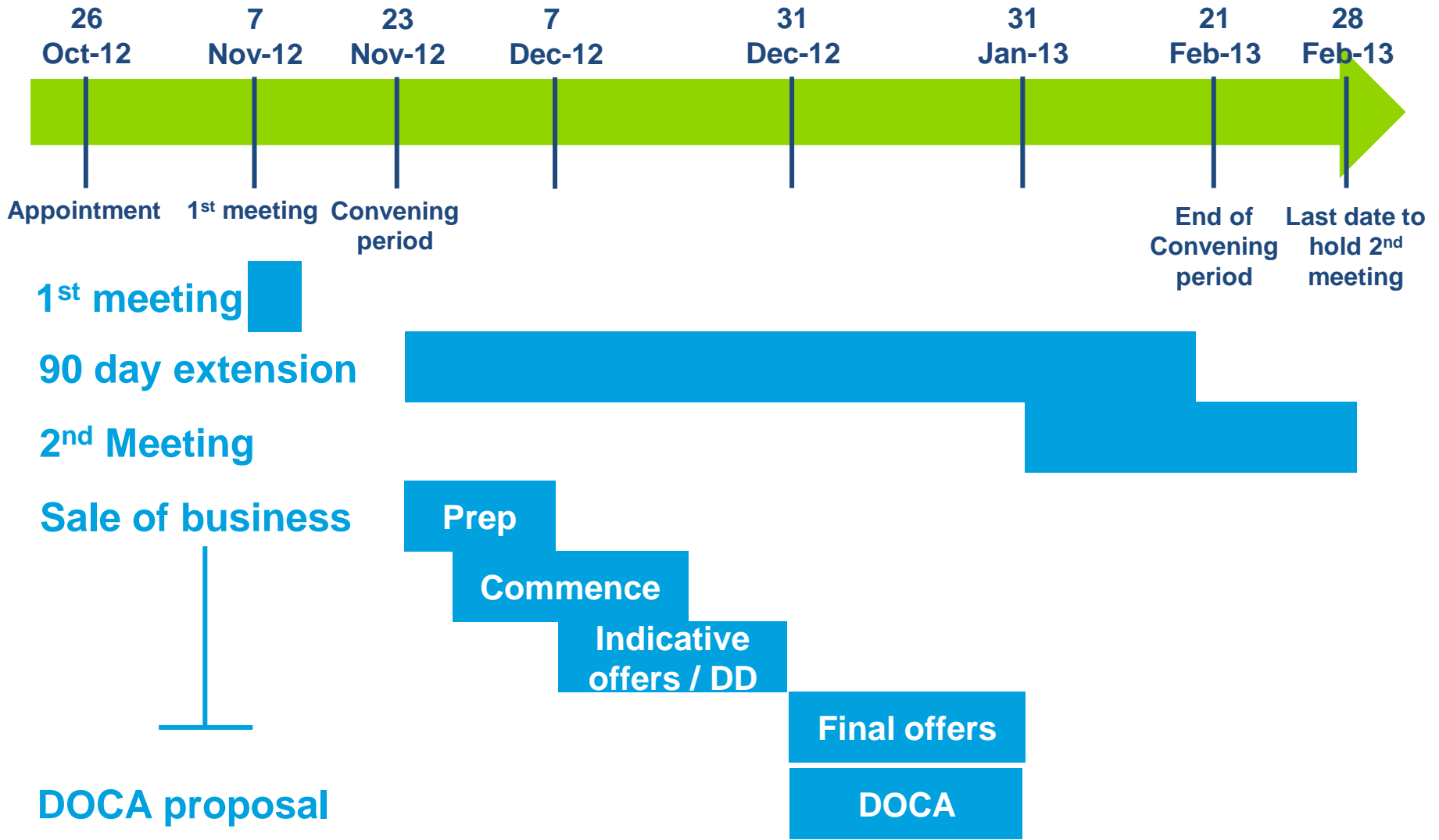
The 439A (Second) Meeting is to be held within five business days from the end of the convening period (21 business days from the date of the Administrators appointment).

Extension to the hold the second meeting

An application to extend the convening period is being made to assist the Administrators 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 14 November 2012

Strategy – Timeline



Formalities

- Attendance Register and Observers
- Notice of Meeting
- Convenience for creditors
- Declaration of Quorum for the company
- Independence of Administrators
- Proxies received
- ASIC comment
- Administrators' comment regarding employees

Appointment

The appointment occurred on Friday 26 October 2012

Retail Adventures Pty Limited

(Administrators Appointed)

ACN 135 890 845

("the company")

Declaration of Independence, Relevant Relationships, and Indemnities ("DIRRI")

There is no change to the DIRRI provided on 29 October 2012

No relationships restrict us from properly exercising our role.

There is no changes to the circumstances in the DIRRI and no update to be provided.

Actions since appointment

Statutory compliance

- ASIC filings
- Convening first meeting
- Notices to creditors and employees
- Statutory advertising

Employees

- Correspondence with employees
- Calculation of employee entitlements

Trading business

- Majority of time has been spent ensuring the ongoing trading of the licenced stores and attending to the store closure program

Monitoring

- The Administrators are working closely to ensure uninterrupted operation of the stores under licence
- Information to ensure interests of all creditors is preserved

Reasons For Failure – Director statement

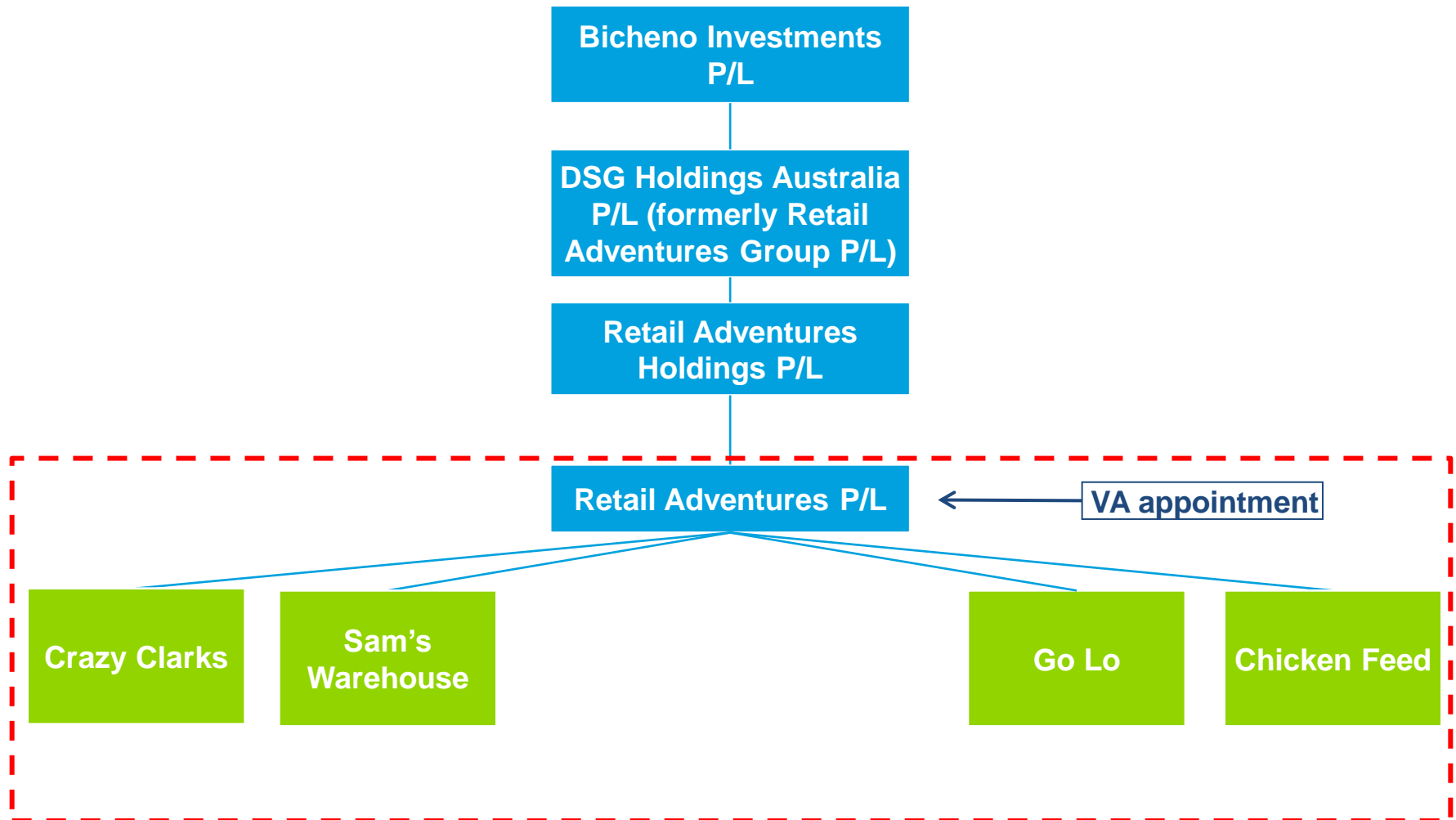
CEO Statement

The decision to place Retail Adventures into voluntary administration was not an easy one. Management examined every possible measure to reduce costs without going into administration. Cost reduction programmes initiated by management stemmed losses from \$47M in 2011 to \$28M in 2012.

Reasons for failure

1. Retail Adventures assumed many of the operational problems faced by ADRT. In the first year following acquisition the company closed 80 unprofitable stores at a cost of \$28M and in year two closed the distribution centres in NSW and Tasmania while continuing to pay lease costs of \$6.0M per annum.
2. Supplier margins increased post administration as supply recommenced and suppliers sought to recover past losses through increased pricing. These price differentials were not eliminated by the new buying team until late 2011.
3. Management made the decision in 2009 to centralise buying for all brands in New South Wales and distribution through three distribution centres in Queensland, New South Wales and Victoria. The decision to close the Tasmanian buying office and distribution centre resulted in the once profitable Chickenfeed business becoming unprofitable losing \$5.0M per year.
4. Retail wages as a percentage of sales have been around 5% above market benchmarks for the past 3 years, resulting in variable costs overspends of approximately \$6.0M to \$7.0M per annum. This issue was identified by the current senior management team but efforts to reduce wages costs were unable to take effect within the time frame required to stabilise the business.
5. In order to preserve leases on the acquisition of the business the company agreed to a number of uncommercial leases at above market rents costing the business more than \$7.0M per annum.

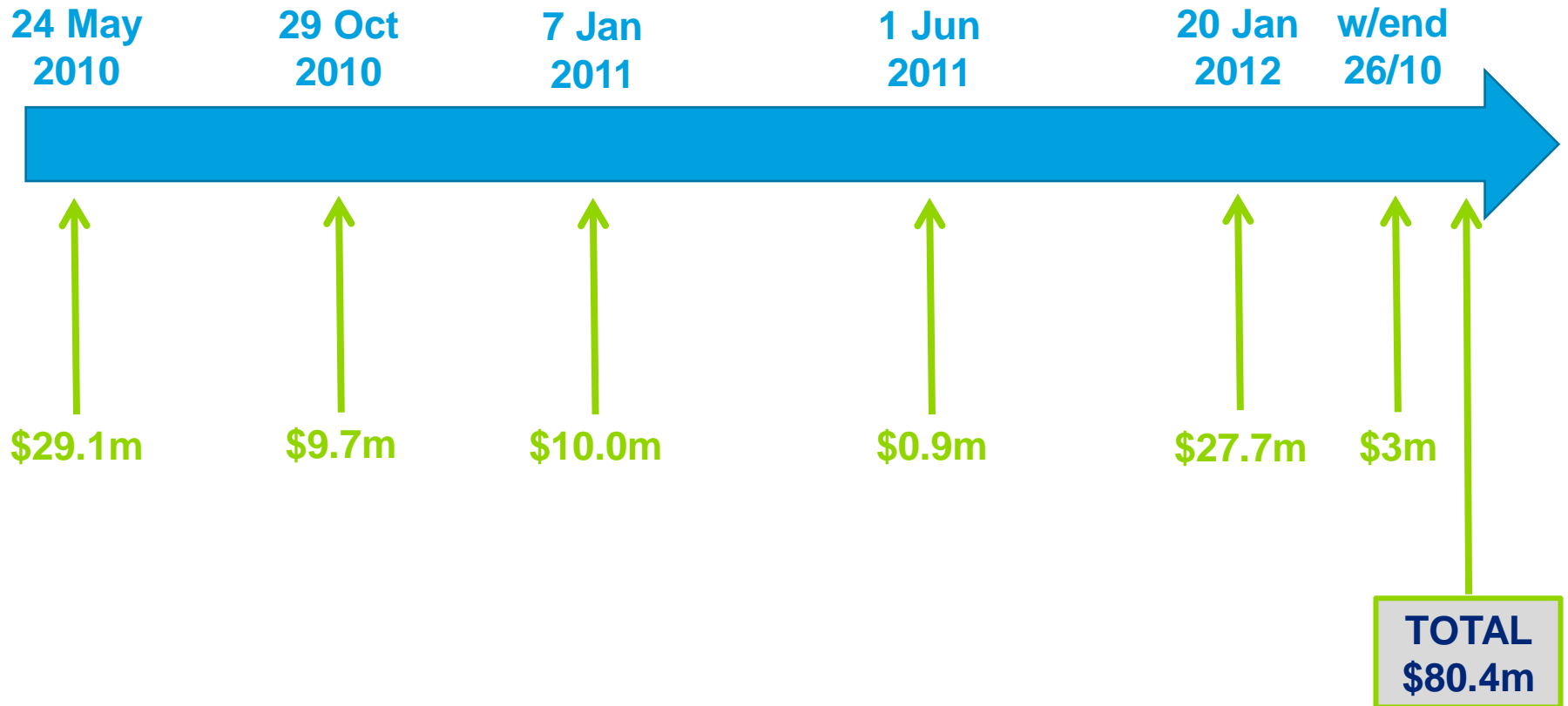
Reasons For Failure – Corporate structure



Reasons For Failure – Financials (historic summary P&L)

\$(M)	16 m Jul-10	FY11	FY12
Sales	985	680	648
Cost of sales	(562)	(382)	(350)
Gross margin	423	298	298
<i>GM%</i>	<i>42.9%</i>	<i>43.8%</i>	<i>46.0%</i>
Operating costs:			
Staff costs	(213)	(162)	(147)
Lease & occupancy costs	(164)	(82)	(83)
Advertising / marketing costs	(32)	(25)	(20)
Freight & distribution	(24)	(20)	(22)
Other	(29)	(56)	(55)
Total operating expenses	(462)	(345)	(327)
EBITDA	(39)	(47)	(28)

Reasons For Failure – Shareholder funding (cash secured loans)



Reasons For Failure – Financials (Balance sheet)

\$(M)	Sept-12
Cash	14.8
Stock	103.7
Receivables	4.7
Total current assets	123.2
Fixed assets	27.6
Total assets	150.8
Trade creditors	(96.9)
Loans – current	(49.7)
Other payables / accruals	(19.7)
Payroll and employees	(17.3)
Provisions	(21.2)
Borrowings non-current	(63.5)
Total liabilities	(268.5)
NET LIABILITES	(117.7)

Strategy - Overview

Creditor position	\$m
Secured debt	\$80m
Employee entitlements:	
- <i>entitlements</i>	\$8m
- <i>Notice and redundancy</i>	\$17m
Total	\$25m
Unsecured trade creditors	
- <i>Trade**</i>	\$97m
- <i>Related</i>	\$68m
Total	\$165m
Total creditor position	\$270m

**before contingent claims

**information is being received in respect to additional claims

Licence Agreement

Strategy – Licence Agreement

Purpose

Enable the business to be traded as a going concern. Preserving the value of the business for the benefit of all creditors

Provides time:

- For the Administrators to run a sale of business process
- For the Administrators to conduct their investigation into the affairs of the company.
- For the Director or others to propose a DOCA

Strategy – Licence Agreement

Key issues:

- Last 3 years – losses \$114m
- Employees c.5,000
- Stores 268 stores
- Head office infrastructure 1,000 stores

Business purchased in 2009:

- Stores 408 stores (373 ADR plus 35 CFeed)
- Value \$85m (stock value c.\$100m at cost)

Strategy – Licence Agreement

Key issues:

Open Purchase Orders	\$'000
Overseas suppliers	34,073
Local suppliers	19,995
other (non stock)	746
	<hr/>
	54,814

- Stock required to operate to Christmas (236 stores) - \$9m
- Orders expected to be placed for stock in early December for post January 2012 - \$36m

Significant funding requirement to trade whilst a sale process is conducted

Strategy - Licence Agreement

Value scenario	\$m
Secured debt	\$80m
Employee entitlements	\$25m
Total secured / priority creditors	\$105m
Stock at cost @ 26.10.12	\$101m
Value of the business acquired in 2009	\$85m

- For there to be any return to unsecured creditors the value of the business would need to exceed \$105m

Strategy – Licence Agreement

Key Terms & Protections for Creditors

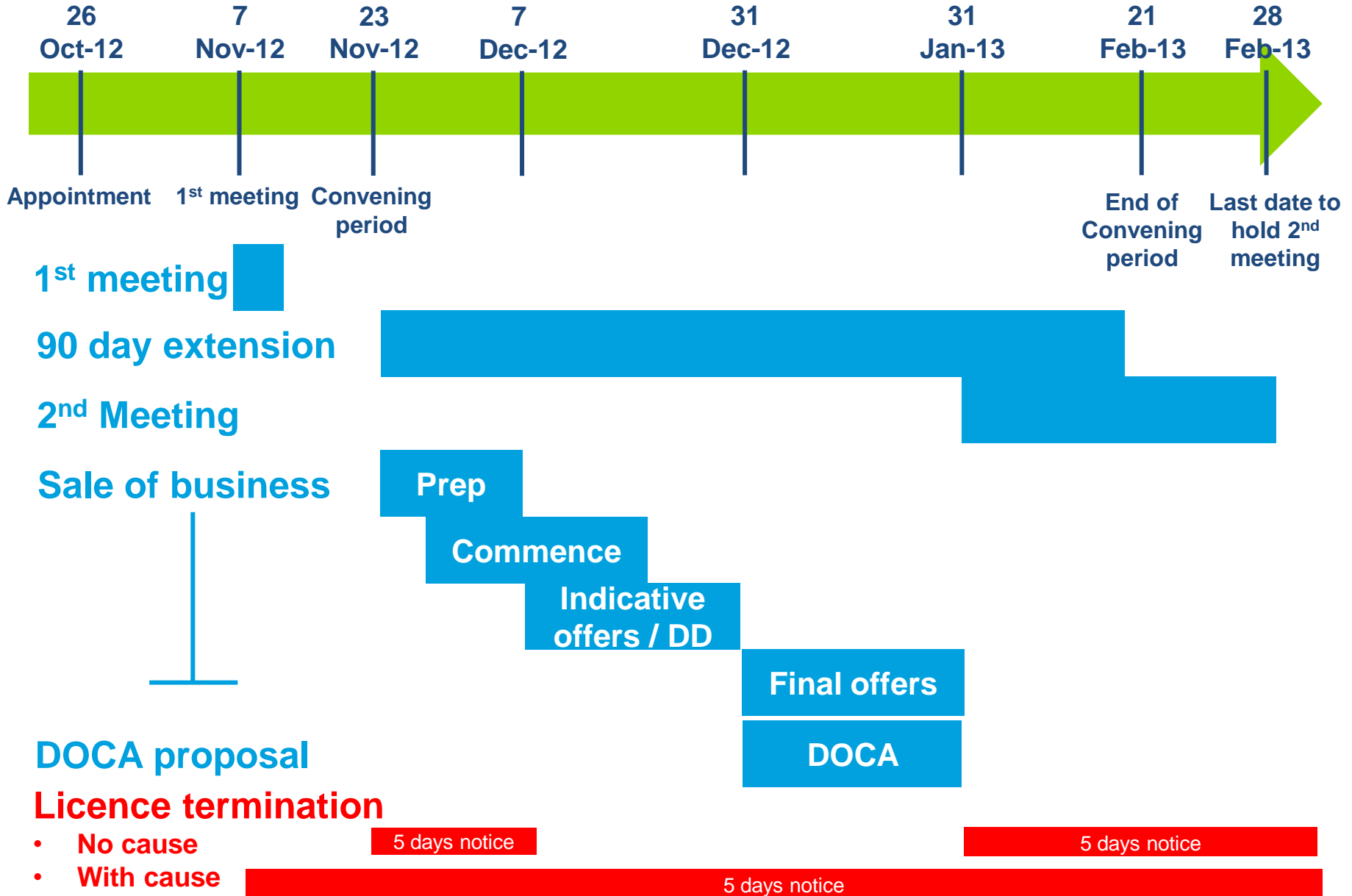
DSG

- Trade the licenced stores (236)
- They take on all the trading liabilities
- Pay the Administrators sufficient funds to meet employee entitlements for staff made redundant
- Put us in funds to meet rent & wages and other outgoings
- All stock remains the property of RAPL, provided to DSG as consignment stock
- Minimum stock level at anytime must be at \$70m

We have the ability to terminate the licence:

- on 5 business days notice from 23 November to 7 December without cause
- On 5 business days notice after 31 January 2013 without cause
- At anytime in the event of a material breach of the licence agreement

Strategy – Timeline



Investigations

The Act requires an Administrator to specify whether there are any transactions that appear to the Administrator to be voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act.

Voidable transactions include:

- Unfair preferences (Section 588FA)
- Uncommercial transactions (Section 588FB)
- Unfair loans to a company (Section 588FD)
- Arrangements to avoid employee entitlements (Section 596AB)
- Unreasonable director-related transactions (Section 588FDA)
- Transactions with the purpose of defeating creditors (Section 588FE(5))
- Voidable security interests (Section 588FJ)

The Administrators will also investigate if the Company traded whilst insolvent

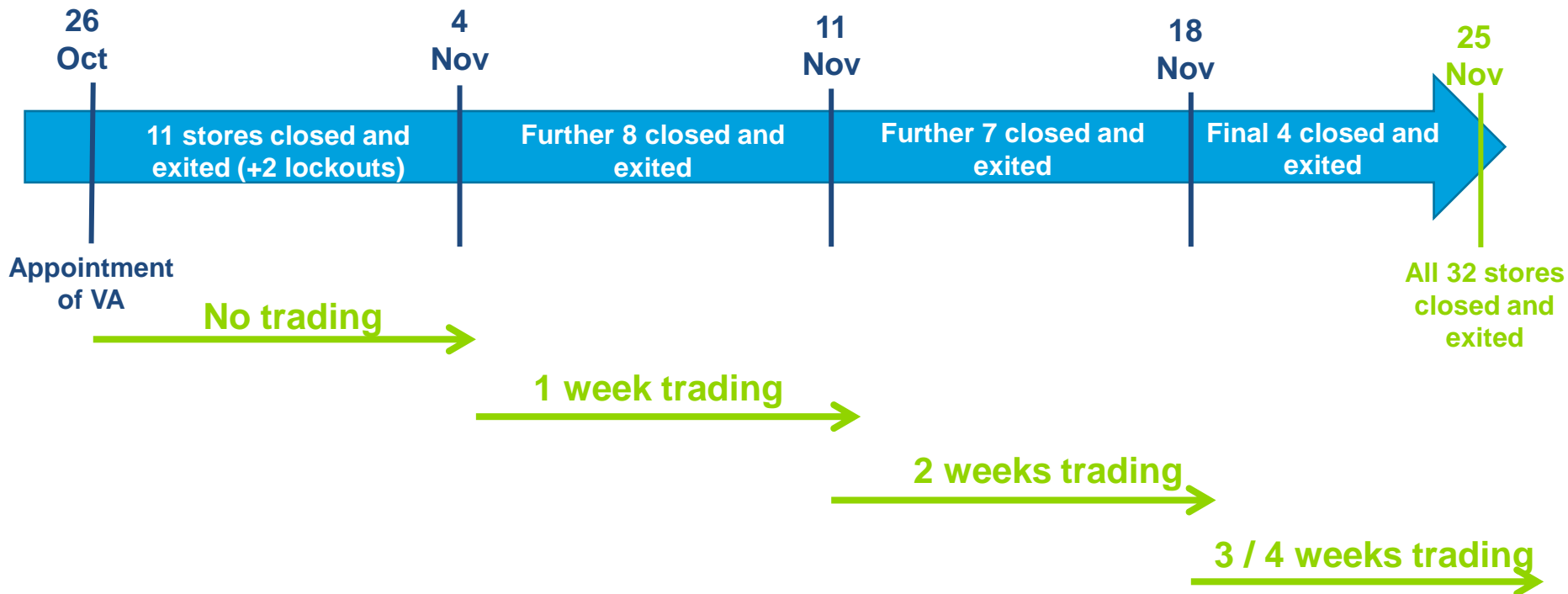
Operations – Overview



- On appointment the Company operated 268 stores
- Under the licence agreement DSG Holdings Australia Pty Ltd will operate 236
- The Administrators will control / operate the remaining 32 stores

Operations – Store closures

- Approximately 32 stores are not part of the licence agreement and are under the operation and control of the Administrators
- An assessment of the financial viability of these stores has been undertaken by the Administrators and due to the loss making nature a staged closure of all stores has been implemented



Operations – Landlords

- Total number of landlords 318
- Monthly rent for the licence stores c.\$6.2m
- Monthly rent for the 32 stores is c.\$0.5m (assumes 1 full month for all stores)
- Total of 10 lockouts, of which 9 have been resolved:
 - Pre appointment 7
 - Post appointment 3
- To date 58 notices to disclaim leased property have been issued by the Administrators:
 - Pre-appointment 47 (stores closed pre-appointment not disclaimed)
 - Post appointment 11 to date

Operations – Supplier & creditors

- Approximately 1,700 creditors as at the date of appointment (including landlords, trade suppliers and service suppliers)
- Based on the Company's books and records amounts owed to unsecured trade creditors as at 26 October 2012 totalled \$97.6m (excludes any landlord and employee claims)
- On appointment there was approximately
 - \$5.1m of stock in transit / on the water
 - \$3.95m of stock on the wharf / at a bonded warehouse
- The Administrators are currently negotiating a system whereby all stock will be held at a bonded warehouse (bonded warehouse significantly cheaper storage charges than wharf)
- The company's records show that there was \$101m of stock at cost on appointment (\$70m at stores, \$21m in DCs and \$10m in transit)
- To date we have received notice of 32 ROT claims with an estimated claim value of c.\$5.2m

Operations – Employees

Employee numbers	VA #	Under licence #	Total #
Employees 26.10.12	736	4,669	5,405
Notice of termination	(688)		(688)
Retained employees @ 7.11.12	48	4,669	4,717
Estimated Entitlements	VA \$'000	Under licence \$'000	Total \$'000
Annual leave	442	3,617	4,059
Long service leave	464	3,504	3,968
Notice	631	4,630	5,261
Severance	1,492	10,530	12,002
Total	3,029	22,281	25,310

Questions

- From the floor

Voting/Resolutions

Resolutions

Motions to be resolved on the voices, unless a poll is demanded (Regulation 5.6.19, 5.6.20)

A poll could be demanded by:

- The Chairperson; or
- At least two persons entitled to vote; or
- A person representing not less than 10%

Creditors' Committee Appointment

Resolution – Committee of Creditors

Retail Adventures Pty Limited

“That a committee of creditors of Retail Adventures Pty Limited be formed in accordance with section 436E(1) of the Corporations Act 2001, comprising the following members...”

Note:

Ideally all groups of creditors should be represented on the Committee, including:

- Trade creditors
- Landlords
- Employees

Any other resolutions

- Administrators appointed 26 October 2012
- Creditors may remove Administrators and appoint someone else as Administrator (Section 436E(4))
- Other nominations

Closure

- Any other business
- Meeting closed



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