

Extraordinary General Meeting: SurfStitch Group Limited

Wednesday 2 August 2017

Statement by Sam Weiss

The following statement was delivered to the Extraordinary General Meeting of SurfStitch Group Limited by Sam Weiss, Chairman and Non-Executive Director, on Wednesday 2 August 2017.

“Thank you, Chairman

[Inherited Business]

I joined the Board of SurfStitch Group Limited on 1 July 2016, in the wake of the unexpected departure of Justin Cameron and the events surrounding the CoastalWatch relationship. I joined the Board at the behest of a number of the original shareholders in the Company who were troubled by the then state of affairs of the business and who thought that I might be able to add value to the Company. The business which I and my fellow Board members inherited was built on far reaching and ambitious plans. During 2015, the Company announced:

- four acquisitions;
- an extensive project to design and build a new ecommerce platform (using internal resources);
- a plan to rebrand all three retail platforms under one name; and
- the creation of a comprehensive online community for action sports stakeholders.

[Actions of new Board and management]

Since being appointed as Chairman of this Company on 1 August 2016, I have overseen the following:

- the appointment of non-executive directors with the requisite skills and experience to deal with the issues faced by SurfStitch Ltd;
- the orderly retirement of the previous non executive directors;
- the appointment of a CFO with relevant industry experience;
- a strategic review of the Company’s businesses and assets;
- the sale or closure of loss making and/or non-core assets;
- a significant cost reduction program that delivered significantly lower operating costs compared to FY16;
- a reduction in inventory levels in excess of 40%, with substantially improved inventory turnover and its aged profile;
- full cooperation with the ongoing ASIC investigation; and
- settlement discussions with both class action litigants.

Although the business has continued to operate at a loss, I believe the underlying SurfStitch business to be better run, leaner, more agile and more appropriately structured than the business we inherited.

[CoastalWatch Litigation]

As the Company set out in the Additional Particulars released to the market last week, the Company currently faces:

- litigation by CoastalWatch and Three Crowns who are entities in the Crown Financial group. Crown Financial is the shareholder who requisitioned this meeting;

and there are also:

- two associated class actions; and
- an ASIC investigation.

The common factor linking each of the proceedings and the investigation is the series of purported contracts between members of the SRF group and entities in the Crown Financial group (**Contested Contracts**) dating back to the period between approximately December 2015 and February 2016.

I do not intend to use this meeting to set out the complex detail surrounding the Contested Contracts and their impact on the SurfStitch group.

Nor is this meeting the appropriate environment to debate the merits of either the litigation in the Queensland Supreme Court or the Class Action litigation.

However, I believe a short, high-level summary of the facts may be useful.

In their original form, the Contested Contracts, among other things, required Crown Financial companies to pay approximately \$20 million to the SurfStitch group during April 2016 and the financial results for the six months ending 31 December 2015 (**Half Year Results**) were prepared on the basis these funds would be received at that time. There were separate heads of agreement that made it apparent that the Crown Financial companies would not be required to actually pay that amount.

During the period from January to February 2016, the Contested Contracts were varied and additional Contested Contracts were concluded. The effect of these changes was to remove the obligation upon the Crown Financial companies to make full payment of approximately \$20 million in April 2016. Instead, this payment was spread in equal, annual installments, across a period of ten years, with payments to be made by SurfStitch over the same period exceeding the amounts payable by Crown Financial companies by some \$4m.

During the period from March to June 2016, there were several key changes of executive management at SurfStitch. New management examined the complex contractual structure created by the Contested Contracts. On 9 June 2016, the Board reversed the sales and profit impact of the Crown Financial contracts originally included in the Half Year Results.

During the period following the 9 June announcement:

- the Company received the first of several communications from ASIC;
- entities in the Crown Financial group instigated two sets of proceedings in the Queensland courts to enforce the Contested Contracts;
- the first threat of class action against the Company was publicised; and
- Crown Financial acquired approximately 10% of the issued share capital of the Company.

The Contested Contracts, and the manner in which they were handled and communicated prior to June 2016, link all of the significant challenges now faced by the Company. The current Board, led by me - each of us, including our CEO, appointed after the relevant periods and events associated with the Contested Contracts - continue to manage these challenges to the best of our abilities.

On a personal level, I took this role for a number of reasons. I have been involved in the retail trade for the past forty years and have experience in it in Europe, the United States and Asia and have been actively engaged in E-Commerce virtually since the beginning of it nearly twenty years ago. I was under no illusions about the degree of difficulty of the task ahead, nor was I when I commenced my appointment with the Company.

In the face of the adversity that the “Contested Contracts” have caused the Company, the shareholders, employees and others with interests in the Company deserved a Board that has done, and is continuing to do, everything in its power to preserve value where possible in the businesses.

That is what the Board under my stewardship has always done.

[EGM requisition and resolution]

The ability to requisition a meeting is a right of any shareholder and one that has my utmost respect. However, leaving aside the considerable expense and significant distraction of this exercise, there appears to be little, if any benefit, to the Company if the proposed resolution is passed. Instead, the passing of the resolution will leave the Company with no Chairman, no proposal or suggestion as to who should replace me and no indication as to what management should expect from that individual by way of a change in approach, most particularly in relation to the Crown Financial litigation. Rather than provide a constructive alternative to the current leadership, I believe the resolution, if passed, will further de-stabilise the Company and cannot be in the interests of the shareholder body as a whole.

Thank you.”