

UPDATE TO SHAREHOLDERS

15 March 2019

**RE: SurfStitch Group Limited ACN 602 288 004
SurfStitch Holdings Pty Limited ACN 601 114 603 (A wholly owned subsidiary of SGL)
(each Subject to Deed of Company Arrangement)(Collectively “the Companies”)**

On 18 April 2018, SurfStitch Group Limited (“SGL”) and SurfStitch Holdings Pty Limited (“SHPL”) both executed separate Deeds of Company Arrangements (“SGL DOCA” and “SHPL DOCA” respectively, together “DOCAs”) and John Park, Quentin Olde and myself, Joseph Hansell, were appointed Deed Administrators.

Please refer to previous ASX announcements for further background relating to the Voluntary Administration and Deed of Company Arrangement of the Companies. Unless otherwise defined, capitalised terms have the meaning given to them in the DOCAs.

Following on from our ASX announcement on 27 February 2019 advising shareholders as to the extension of time to hold the 2018 AGM, ASIC imposed a condition on the extension that within 14 business days of granting the extension, SGL must make an announcement to the ASX providing an update on the Deed of Company Arrangement and the information required by *Form 5602 Annual Administration Return*. In accordance with this condition, the purpose of this circular is to provide you with an update on the progress of the DOCAs.

The information required by *Form 5602 Annual Administration Return* will be provided by way of a separate announcement.

PAYMENT OF DIVIDEND TO PRIORITY EMPLOYEE AND ORDINARY CREDITORS OF SGL AND SHPL

Pursuant to the terms of the SGL DOCA and SHPL DOCA, the Deed Administrators have adjudicated on all priority employee and unsecured claims of SGL and SHPL that were the subject of proofs lodged on or prior to 1 June 2018. On 6 July 2018, the Deed Administrators distributed dividends representing 100 cents in the dollar plus interest on all unrelated party, director and officer or former officer claims that were admitted to proof by that date.

Pending Settlement Approval under the SGL DOCA (refer to Class Action Update below), the Deed Administrators of the SGL DOCA have not yet called for proofs of debt from any potential creditor with a Subordinate Claim under the SGL DOCA. The Deed Administrators of the SHPL DOCA have not yet made a distribution to SGL of its entitlements under the SHPL DOCA.

FTI Consulting (Australia) Pty Limited
ABN 49 160 397 811 | ACN 160 397 811 | AFSL Authorised Representative # 001269325
Level 15 | 50 Pitt Street | Sydney NSW 2000 | Australia
Postal Address | PO Box R367 | Royal Exchange NSW 1225 | Australia
+61 2 8247 8000 telephone | +61 2 8247 8099 fax | fticonsulting.com

WINDING UP OF SUBSIDIARIES

Following the execution of the DOCAs, the Deed Administrators have also worked towards the winding up of various subsidiaries of SGL and repatriating funds (if any) back to SHPL. In this regard please find listed below the status of the respective companies:

Subsidiary	Trading Company/Brand	Status
Magicseaweed Limited	Magicseaweed	Pending voluntary dissolution
Metcentral Limited	Magicseaweed	Pending voluntary dissolution
Rollingyouth USA Inc	Stab Magazine	Fully dissolved
Rollingyouth Pty Ltd	Stab Magazine	Pending voluntary dissolution
Surfstitch Europe Pty Ltd	Dormant legacy entity	Pending voluntary dissolution
Surfstitch USA Inc	Swell	Pending involuntary dissolution

CLASS ACTION UPDATE

It is a condition precedent to effectuation of the SGL DOCA that Settlement Approval has occurred and remains in force.

Below is a summary of the steps that have been taken since execution of the SGL DOCA in the Class Actions, including to seek to give effect to Settlement Approval in respect of the Class Actions. The Court has ordered a mediation of the Class Actions to occur before the end of May 2019.

Date	Event
April – August 2018	<ul style="list-style-type: none">The Deed Administrators respond to Notices to Produce issued by the plaintiffs in the Class Actions.
July 2018	<ul style="list-style-type: none">The plaintiffs in the Class Actions filed motions seeking orders to approve settlement of the Class Actions (“Plaintiffs’ Motions”). The Deed Administrators raised issues with the orders sought in the Plaintiffs’ Motions.The Court appointed Mr Guy Donnellan contradictor in respect of the Plaintiffs’ Motions.The parties were ordered by the Court to provide notice to group members regarding the Plaintiffs’ Motions.Notice of Plaintiffs’ Motions to group members approved by the Court.

Date	Event
	<ul style="list-style-type: none"> • Deed Administrators filed and serve notices of a constitutional matter in respect of orders sought in the Plaintiffs' Motions.
August 2018	<ul style="list-style-type: none"> • Court-ordered notice sent to group members in relation to the Plaintiffs' Motions. • The plaintiffs filed amended notices of motion seeking orders to approve settlement of the Class Actions ("Plaintiffs' Amended Motions").
September 2018	<ul style="list-style-type: none"> • Court-ordered notice sent to group members in relation to plaintiffs' estimate of costs. • Court-ordered notice sent to group members in relation to Deed Administrators' estimate of the effect of orders sought in Plaintiffs' Amended Motions compared to the fund available to group members in a winding-up. • Plaintiffs, Deed Administrators and contradictor file evidence and submissions in relation to Plaintiffs' Amended Motions. • Plaintiffs filed submissions in reply. • Class action funders granted leave to intervene and be separately represented in respect of Plaintiffs' Amended Motions.
October 2018	<ul style="list-style-type: none"> • Directions hearing of both class actions in NSWSC. Date set for hearing in respect of preliminary orders sought in the Plaintiffs' Amended Motions that opt-out be dispensed with and that group members who opt out be bound by any costs and common fund orders. • Deed Administrators respond to funders' Notice to Produce.
1-2 November 2018	<ul style="list-style-type: none"> • Hearing in relation to the preliminary orders sought in the Plaintiffs' Amended Motions. • Court holds that there is no power to dispense with opt-out.
December 2018 – present	<ul style="list-style-type: none"> • Discussions between the parties concerning the future conduct of the Class Actions and Settlement Approval. • On 8 March 2019, the Court ordered that SGL, Justin Cameron, Chubb Insurance Australia Limited, the plaintiffs and the funders mediate.

CONVERTIBLE NOTES AND EXIT EVENT

We refer to our announcement to the ASX on 17 April 2018 in respect of the sale of SurfStitch Pty Limited (“SSAU”). In consideration for that sale, SHPL received Convertible Notes in a holding company, Alceon Retail HoldCo Pty Ltd ACN 625 287 738 (the “Issuer”) which owns EziBuy and SSAU. The Convertible Notes have a conversion period on the earlier of 3 years or on the occurrence of an Exit Event. An Exit Event being defined as an IPO, Trade Sale or Share Sale. The proportion of equity received by SHPL in the Issuer is based on a pre-determined formula on the respective performance of both businesses. The equity allocation for SHPL could range from 5%-10% of the Issuer. To date there has been no Exit Event triggering the conversion of the Convertible Notes held by SHPL.

Under the SHPL DOCA, the Deed Administrators of SHPL are required to distribute 80% of the Convertible Notes to the SGL Admitted Subordinate Claimants on a pari passu basis and 20% of the Convertible Notes to the SGL Shareholders on a pari passu basis by notifying the Issuer of the SGL Admitted Subordinate Claimants and SGL Shareholders and their proportionate entitlements to the Convertible Notes. Other than their proportionate entitlements in respect of 20% of the Convertible Notes, the SGL Shareholders are unlikely to receive any distribution from the SGL Deed Fund.

We are seeking information from the Issuer in respect of its financial performance.

DEED ADMINISTRATORS’ REMAINING TASKS

The Deed Administrators are required to undertake the following tasks to effectuate the DOCAs:

- seek to give effect to Settlement Approval;
- distribute SHPL Deed Fund to SGL;
- subject to any Court orders made in Settlement Approval, call for proofs of debt from potential creditors who assert a Subordinate Claim and distribute SGL Deed Fund in accordance with the SGL DOCA; and
- Provide the Issuer with a list of SGL Admitted Subordinate Claimants and SGL Shareholders, including their proportionate entitlements, for purposes of issuing the Convertible Notes.

The Deed Administrators of SHPL and SGL will correspond directly with the potential creditors SGL who the records of SGL show may have a Subordinate Claim with respect to this process in due course.

Should you have any queries in the interim, please contact this office on (07) 3225 4900 or surfstitch_enquiries@fticonsulting.com.

Yours faithfully
The Companies



Joseph Hansell
Deed Administrator