



Our Ref: AD/JB/ACE

6th June 2016

The Chair
Work and Pensions Committee
14 Tothill Street
London SW1H 9NB

Dear Mr Field

Further to my letter of Friday 3rd June 2016, please find attached the written replies to the written questions accompanying your letter of 31st May 2016.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Alexander Dellal", is written in a cursive style.

Alexander Dellal

CONFIDENTIAL

Provided to the Work & Pensions Committees in response to a written request dated 31 May 2016.

Note: All references to RAL in these replies are to Retail Acquisitions Limited, including in its former name as Swiss Rock Ventures Limited.

A: DOMINIC CHAPPELL

1. When did you first meet Dominic Chappell? How were you introduced to him?

Alexander Dellal was introduced to Dominic Chappell by Lennart Henningson of RiverRock Securities Limited, at a meeting on 6 November 2014. The meeting took place at the offices of Allied Commercial Exporters Limited ("ACE") following contact having been made by Mr Henningson the previous month. Mr Henningson is an individual known to ACE who was a longstanding acquaintance of the late Jack Dellal. Guy Dellal has never met Dominic Chappell.

2. When did you first start discussions with Dominic Chappell and Retail Acquisitions Limited about lending them money?

At the meeting on 6 November 2014, Mr Chappell indicated that he was negotiating the purchase of the BHS Group Limited ("BHS Group") from Arcadia Group Limited ("Arcadia") through a corporate entity, RAL. In that context, Mr Chappell enquired as to our interest in providing a loan facility for the acquisition to be secured against the properties known as Marylebone House, North West House and Oxford Street.

On 7 November 2014, we informed Mr Henningson that we did not wish to provide the loan facility requested but that we were interested in acquiring Marylebone House and North West House. As described further below, the negotiations from that point until 10 March 2015 solely concerned these proposed acquisitions.

The first substantive discussion in relation to lending to RAL / the BHS Group occurred on 10 March 2015 as described further below.

3. Who advised you, as part of your consideration of whether to lend money to Dominic Chappell and Retail Acquisitions Limited for the purchase of BHS?

All matters relating to the commercial decisions for the transactions referred to in the answers below were made internally by ACE. Our lawyers dealt with the documentation in connection with the transactions.

B: INITIAL LOAN

Allied Commercial Exporters (ACE) loaned Dominic Chappell (or Retail Acquisitions Limited) £35 million in order to help him buy BHS. The money was placed in escrow with Olswang.

As described above, following our introduction to Mr Chappell we indicated our interest in acquiring the properties known as Marylebone House and North West House. Those discussions resulted in Heads of Terms being proposed on 30 January 2015 pursuant to which ACE proposed to acquire Marylebone House for £45 million and, in that regard, to place the sum of £35 million into a nominated account to be held by Olswang solicitors on behalf of RAL. Such sums were held to the strict order of ACE's solicitors and were intended to be used solely for the purposes of the acquisition of Marylebone House. In return for placing these sums on account, and in accordance with the Heads of Terms, ACE was to receive a fee of £1 million to be payable on completion of the transactions.

The £35 million was transferred on 4 February 2015. Prior to this, Mr Chappell had stated that he required the £35 million to be transferred in order to demonstrate proof of funds to the then owner of Marylebone House, understood to be Wilton Equity Limited ("Wilton Equity"), a company which did not form part of the BHS Group. Mr Chappell indicated that he had agreed with the vendor of BHS Group that RAL would acquire Marylebone House for £35 million and that the balance of funds payable by ACE on completion (£10 million) would be utilised by RAL for new equity into the BHS Group.

In addition to the proposed acquisition of Marylebone House, the Heads of Terms also contained a proposed option exercisable within 12 months for the acquisition of North West House at a price of £30 million.

The anticipated completion date for both the acquisition by RAL of the BHS Group and for the acquisition by RAL of Marylebone House was 9 March 2015. It was intended that ACE's acquisition of Marylebone House from RAL would occur immediately thereafter. However, on 9 March 2015, ACE was informed by Mr Chappell that Marylebone House had been withdrawn from sale by the then owner and that the acquisition of the BHS Group was now scheduled for completion on 11 March 2015. During this conversation, Mr Chappell enquired as to whether we would be interested in acquiring North West House instead of Marylebone House.

On 11 March 2015, RAL completed the acquisition of the BHS Group. Later the same day, ACE through its wholly owned subsidiary, J9 Properties Limited ("J9 Properties"), acquired North West House for £32 million. The monies held at that time by Olswang under a solicitors' undertaking were used to fund this acquisition.

4. **Once the sale of BHS was made, did the £35 million transfer back to Allied Commercial Exporters?**

(a) **If so, on what date did this happen?**

On 10 March 2015, Olswang unilaterally returned £3 million to ACE's solicitors' client account in light of the fact that the Marylebone House acquisition was not proceeding. On completion of the BHS Group takeover, the remaining £32 million held by Olswang was used to satisfy the purchase of North West House.

5. **If the money did not revert back to ACE, how was the loan repaid?**

(a) **Was the loan £35 million secured against anything? If so, what?**

Please see above. For the avoidance of doubt, the written undertaking from Olswang in relation to these monies operated as security for the return of these monies at all times up until 10 March 2015 as to the £3 million unilaterally returned and the completion of the transaction on 11 March 2015 for the balance.

(b) **When was the loan repaid?**

Not applicable.

C: NORTH WEST HOUSE

ACE representatives told the Sunday Times that "those monies were used towards the acquisition of North West House" from Sir Philip Green.

North West House was not purchased from Sir Philip Green. It is unclear where the suggestion of such acquisition being "from Sir Philip Green" has come from, but it is mistaken. North West House was sold by Lowland Homes Limited (a BHS Group company) to J9 Properties on 11 March 2015, following the acquisition of the BHS Group by RAL. No transactions were undertaken by ACE or its subsidiaries with Sir Phillip Green, Arcadia or any other associated entities.

Two months later ACE sold the building for a reported £6.5m profit.

6. **Was the sale of North West House part of the terms of the deal to place the £35 million in escrow to secure the BHS sale?**

(a) **Were there other terms as part of the £35 million loan?**

At the time that the £35 million was placed in escrow with Olswang these monies were intended to be used towards the purchase of Marylebone House for £45 million. The terms changed following the withdrawal from sale of Marylebone House on 9 March 2015 as noted above.

For the avoidance of doubt, the sale of North West House by J9 Properties was not part of the deal to place the £35 million in escrow.

7. **What interaction did you have, and when, with Sir Philip Green and Arcadia Group prior to the date of the sale of BHS to Retail Acquisitions Limited and your purchase of North West House?**

There was no interaction with Sir Philip Green and Arcadia prior to the date of the sale of the BHS Group or the purchase of North West House. Neither Sir Philip Green nor Arcadia were counterparties to the transactions involving ACE and its group on the one hand and RAL and the BHS Group on the other.

8. **In March 2015, ACE made a £5 million loan to BHS.**

(a) **What were the terms of this loan?**

On 10 March 2015, Mr Chappell enquired as to whether ACE would be prepared to lend £5 million to RAL to be secured upon the Atherstone Distribution Centre owned by the BHS Group.

This loan was made to RAL for a period up to 11 May 2015. The total redemption figure was to be £6 million, with £2 million repayable on 18 March 2015 and the balance repayable at maturity.

The terms of this loan were varied on 1 May 2015, as noted at paragraph 2 of the Further Relevant Transactions below.

(b) **What was the purpose of this loan?**

Mr Chappell indicated that RAL required these funds to assist financing their acquisition of the BHS Group.

(c) **Has this loan now been repaid?**

Yes.

(d) **When was the loan repaid?**

On 26 August 2015, when the BHS Group sold the Atherstone Distribution Centre.

9. **In July 2015, ACE made a £25 million loan to BHS.**

(a) **What were the terms of this loan?**

This loan was executed on 26 June 2015. This was a loan for a term of up to six months at an effective interest rate of circa 13% and a facility fee of 4%, payable on redemption, comprising of a senior loan of £20 million and a mezzanine loan of £5 million, and was secured over the lease of the Oxford Street Store in London, and the part leasehold and part freehold of the BHS Store in Manchester. In the event that BHS sold its interest in the property at Oxford Street, profit share provisions were included as part of the mezzanine loan that ACE would receive 30% of any amounts raised from £45 million up to £60 million; 40% of any amounts raised over £60 million up to £80 million; and 50% of any amounts raised over £80 million.

(b) **What was the purpose of this loan?**

Mr Chappell indicated that these funds were required in order to meet short term working capital demands, specifically the BHS Group's rental and payroll costs, and to enable the BHS Group to

continue trading whilst pursuing a wider refinancing with a different party. Mr Chappell also indicated that these funds would assist his negotiations with the freeholder of the Oxford Street store.

(c) **Has this loan now been repaid?**

Yes.

(d) **When was the loan repaid?**

The majority of the outstanding amount was repaid on 11 September 2015 following the refinancing with Grovepoint of the BHS Group's liabilities. The profit share element of the loan, however, was not intended to be redeemed whilst BHS Group held the leasehold interest in Oxford Street. This element of the loan was therefore renegotiated by BHS Group, such that circa £3.491 million (including the balance payable under the 1 May 2015 unsecured loan note referred to below) became payable in three monthly instalments of circa £122,500 between September and November 2015, with the balance of circa £3.12 million due on 28 December 2015 but actually paid on 4 January 2016. The security was also released on 11 September 2015.

10. **In March 2016, ACE made a £500,000 loan to BHS.**

(a) **What were the terms of this loan?**

In around March 2016, Mr Chappell enquired as to whether ACE would be prepared to lend £500,000 to RAL. This loan was made to RAL and was for a period of two years at an interest rate of 1% per month compounded.

(b) **What was the purpose of this loan?**

Mr Chappell indicated that he required the financing in order to support the general administration costs of setting up a new company, understood to be to support an intended expansion of the BHS brand internationally, and to support the intended acquisition of new brands outside the BHS Group.

(c) **Has this loan now been repaid?**

No. The loan is due to be repaid in full at maturity in March 2018.

(d) **When was the loan repaid?**

Not applicable.

FURTHER RELEVANT TRANSACTIONS

Although the Committee has not asked questions regarding other transactions between ACE and Mr Chappell, RAL or the BHS Group it is appropriate that we provide further details in the interests of completeness:

1. Unsecured loan note on 11 March 2015

Ahead of the completion of the acquisition of North West House, ACE were informed that the BHS Group would enter into a new 2 year "Wind and Watertight" lease, at a peppercorn rent, as opposed to paying a full market rent on a "Full Repairing and Insuring" basis. In lieu of this, therefore, the BHS Group issued to J9 Properties unsecured loan notes in the total sum of circa £3.645 million. This net sum was comprised as follows: (a) the equivalent of 2 years rent, circa £3.32 million; (b) the £1 million payable as the fee due in accordance with the Heads of Terms dated 30 January 2015 (see section B above); (c) professional fees of £75,000; and (d) a reduction of £750,000, such sum having been placed in escrow with Olswang on behalf of the BHS Group against contingent liabilities arising under their leasehold occupation of North West House. The total amount payable under the loan note was therefore as follows:

- a. £1.075 million on 11 September 2015;
- b. £1.285 million on 11 March 2016;
- c. £642,500 on 11 September 2016; and
- d. £642,500 on 11 March 2017.

2. Variation of 11 March 2015 loan

As described above, the first repayment of £2 million under the loan of 11 March 2015 was due on 18 March 2015. Only £1 million was paid at this time and the BHS Group was therefore in default. Consequently, a Deed of Amendment and Variation was entered into on 1 May 2015 between ACE, RAL and BHS Properties Limited. As a result, the aggregate amount due under the loan increased by circa £1.15 million, consisting of £1.075 million due under the unsecured loan notes referred to above, plus accrued interest and legal fees.

3. Cancellation of 11 March 2015 loan note & replacement by 1 May 2015 loan note

The £750,000 in escrow referred to above was released to ACE on 1 May 2015. At the same time, the 11 March 2015 loan note was cancelled and in place of that there was issued by the BHS Group to ACE an unsecured loan note for circa £2.585 million, repayable as follows:

- a. £500,000 on 11 June 2015; and
- b. Seventeen monthly payments of circa £122,500 between 11 August 2015 and 11 December 2016.

4. Cancellation of 1 May 2015 loan note & issue of 11 September 2015 loan note

As noted above, following the refinancing with Grovepoint the 26 June 2015 loan was repaid in full, save for the profit share element on the mezzanine loan, which was renegotiated by the BHS Group. As such, the 1 May 2015 loan note was cancelled and in its stead the 11 September 2015 loan note was entered into whereby circa. £3.491 million became payable as described in 9(d) above.

5. Personal loan to Mr Chappell

On 4 February 2016, Mr Chappell approached ACE to request a short term personal loan of £150,000. Mr Chappell indicated that he needed the money for personal reasons. ACE agreed to lend Mr Chappell £150,000 at an interest rate of 1% per month, repayable within two weeks. £75,000 of this loan has been repaid. The balance remains outstanding and has been formally demanded.

6 June 2016

