



Work and Pensions Committee & Business Innovation and Skills Committee

Oral evidence: The sale and acquisition of BHS HC 54

Wednesday 8 June 2016

Ordered by the House of Commons to be published on 8 June 2016.

[Watch the meeting](#)

Members present: Rt Hon Frank Field (Chair), Mr Iain Wright (Chair), Richard Fuller, Richard Graham, Craig Mackinlay, Amanda Milling, Jeremy Quin, Amanda Solloway, Michelle Thomson

Questions 1134 - 1739

Examination of Witnesses

Witnesses: **Michael Hitchcock**, Former Finance Consultant, BHS, **Richard Price**, Former Chief Executive, BHS, and **Darren Topp**, Chief Executive, BHS, gave evidence.

Q1134 Chair: Gentlemen, good morning. We are very grateful that you have come to give evidence to our inquiry. For the purposes of the record, could you tell us who you are? It would also be useful if you could tell us the dates of when you were involved with BHS.

Richard Price: I am Richard Price. I am currently looking after clothing for Tesco. I was the managing director of BHS from October 2012 up until March 2015.

Darren Topp: I am Darren Topp. I am the chief executive of BHS and have worked for BHS for the last seven years.

Michael Hitchcock: Good morning. My name is Michael Hitchcock. I am a consultant. Darren employed me in July 2015 to fill the void left by the lack of a CFO in the BHS business, and I resigned on 22 March 2016.

Q1135 Chair: Mr Topp, may I start with you? You just told us that you were involved in BHS for seven years, starting with Arcadia and then on to the new regime. Could you give us a flavour of the state of the company during that period?

Darren Topp: It is a matter of public record that the business continued to lose quite significant amounts of money during that period. I think that was a reflection of a combination of factors—the financial crisis at the back end of 2008, changing demographics

and the changing face of retail—and it is fair to say that we did not respond quickly enough or well enough to the changing marketplace. When BHS was competing with C&A, Littlewoods and Alders, we stood pretty well. Sadly those businesses left the high street, and suddenly it was a significantly more competitive market.

Q1136 Chair: Was there a deterioration over the seven-year period?

Darren Topp: It was up and down, a little, but generally the trend was of a business—as it happened, for some considerable time—that was losing money.

Q1137 Chair: Was the financial viability of the company under threat?

Darren Topp: Clearly it was being supported by the bigger group—it was being supported by Arcadia. We identified—you will see this from the turnaround plan that I know Members have a copy of—some key things that the business needed to do in order to turn it back into profitability or to give it its best chance of profitability. That was around resetting the cost base, refocusing the business—we had to reinvent ourselves for the modern world—and then it was all about rebuilding the business.

Q1138 Chair: Why was that not done under Arcadia?

Darren Topp: There were various iterations of that plan and many of them started under Arcadia. We got some traction during that period, albeit that it was a very competitive marketplace, as it continues to be today.

Q1139 Chair: Forgive me if I keep pressing you on this. So it was sold to Retail Acquisitions.

Darren Topp: Yes.

Q1140 Chair: In your experience, how did it change? Was the trajectory of the company altered? What was different from when it was owned by Arcadia and Taveta to when it was owned by Retail Acquisitions?

Darren Topp: What the sale allowed us to do was stand on our two feet. That might sound strange because you would think Arcadia as the mothership, if you like, gave everybody quite a bit of comfort. We trialled a number of initiatives—for example, introducing food stores and outsourcing hospitality through Compass—and we trialled various concessions in our stores. What we felt was that we had the basis—the building blocks—of a real recovery plan, but a key part of that was that the cost base needed redressing. It was difficult to redress the biggest cost in the business, which was rents, while we were under the Arcadia umbrella. We felt—I certainly felt at the time—that stepping

away from Arcadia would allow us to address those rents and cost base as an independent business.

Q1141 Chair: We will come to that in a moment. Post March 2015, was the company well run?

Darren Topp: If I could explain to the Committee, at the time of acquisition, Dominic Chappell and his team—he basically said to me, the management team and all the staff in the business through conference calls et cetera, that he was a turnaround expert. He had just completed a significant and successful turnaround on some oil facility, I think in Spain.

Q1142 Chair: And was that true, both factually and in your experience of what you saw?

Darren Topp: Which bit?

Chair: The turnaround of the oil company.

Darren Topp: To be honest, I took it at face value that it was true. I have subsequently read in the press that perhaps it was not all that it seemed, but at the time, Dominic said he had put £10 million of his own money into the business. He had a crack team, as he said, of very experienced people in turnaround. He was very clear with me that my role was focused on running the business. Actually, what he had in his team was him, a property expert and a financial expert. They were the two things we needed: we needed somebody who could raise finance and we needed somebody who could deal with our property portfolio. Unfortunately, as time progressed, that unravelled in terms of that promise, and it became clear towards the end that rather than putting money in, he literally had his fingers in the till.

Q1143 Frank Field: Was there any point when you thought, “This guy is a fantasist”?

Darren Topp: To be honest, Mr Field, I didn’t at the time. I felt quite excited about the opportunity. It was probably not until June that I discovered certain things that I felt uncomfortable about, and then, on finding out about those things—maybe we will touch on them later—I decided at that point that I needed a CFO in the business, hence I recruited Michael.

Q1144 Chair: Could you outline now what those things are?

Darren Topp: This was really as a by-product of—I don’t know whether Members understand this term, but the Pensions Regulator issued us with a section 72 notice, which basically required us to detail various things that happened at the point of transactions. Detailed in that documentation was the fact that Dominic Chappell, either personally or

through his company Swiss Rock, had been paid £1.8 million for the transaction. Detailed in there was that, on the sale of North West House next door to Allied Commercial—ACE—RAL had taken £7 million of the proceeds. Detailed in that document was that the original £5 million equity that was put into the business actually came from a loan and not from his own pocket. It was at that point that I started to feel uncomfortable, because that was not the story we had been given at the beginning. I am not an accountant; it is not my area of expertise. Even though Dominic, at the time said, “Darren, you don’t need to worry about the financing and you don’t need to worry about the property,” I was feeling exposed, and consequently recruited Michael as chief financial officer.

Q1145 Frank Field: On that point, when the scales began to fall from one’s eyes, you said, interestingly, that it did not actually tally with the story you were given. Who gave you the story?

Darren Topp: Dominic.

Q1146 Frank Field: It was him and nobody else outside of that—

Darren Topp: No, and Dominic was very clear with me, the management team and all the people who worked in the business. To be fair to Dominic, he was very clear about the fact that he had been a bankrupt. He said that, unfortunately, he was a by-product of the financial crisis, hence why his business on the Isle of Wight had gone bankrupt; he had learnt a lot of lessons from it and he wasn’t going to repeat. That was very much his message.

Q1147 Frank Field: You seem to suggest that him telling you he had been bankrupt from his efforts on the Isle of Wight was reassuring.

Darren Topp: In one sense it was. We had all googled him, so we got a sense of his colourful past. It suggested to me that he wasn’t hiding anything.

Q1148 Chair: Can I just ask, did you ever discuss Dominic Chappell with Sir Philip Green?

Darren Topp: Only much later.

Q1149 Chair: What was said?

Frank Field: And can you tell us when “later”?

Darren Topp: We’d discussed Dominic probably a couple of times, pre-Christmas, during the back end of the summer and the beginning of the autumn.

Q1150 Chair: So that would be Christmas 2014?

Darren Topp: No, Christmas just gone—2015. I hadn't met Dominic by Christmas 2014. When we were doing the CVA, I had a conversation with Philip saying that I did not believe the business could continue successfully under its current ownership.

Frank Field: You mean Dominic.

Darren Topp: Yes, Dominic. So, we had done a successful CVA, we now needed to raise the finance. Even if we raised the finance, which Dominic was clearly focused on, I was still concerned. The feedback that we were getting from suppliers, credit insurers and so on, concerned me and my ops board—most of whom are here today—that, from a credibility point of view, we were in difficulty.

Q1151 Chair: What was Philip Green's reaction to that?

Darren Topp: What I said to Philip was that I wasn't sure how to do that. I wasn't sure how we would go about doing that. Philip said that unfortunately he couldn't help—he wasn't in a position to help—but we talked through what that might look like. It might have been a vote of no confidence in the owner—we never got there in the end, but it was a tentative conversation because I and the senior managers were concerned that the business, post the CVA, even with the financing, would struggle under that ownership.

Q1152 Frank Field: So the business is sold. Did Sir Philip leave the headquarters at that point?

Darren Topp: Yes.

Q1153 Frank Field: Did you talk to him at all between that and just before Christmas, when you expressed doubts about whether this would work?

Darren Topp: No, I spoke to him on a fairly regular basis. We would sometimes go weeks without speaking, and sometimes we would speak more regularly. Just to give it some colour for Members, we clearly got substantial concession operations in our business with sales of tens and tens of millions of pounds. We talk about trade generally, but just as important, Arcadia were providing all the back-of-house facilities. It was a group structure and we were a brand under the group. We had to disentangle ourselves from the group. That is still not complete today, but that took the best part of a year.

Q1154 Frank Field: How did Dominic appear? Did Sir Philip introduce him to you, or was there just this guy going to buy the business and there was no link at all with Sir Philip?

Darren Topp: Philip did not introduce me to him. I think my first meeting with Dominic was towards the end of February, when we presented our first turnaround plan. He

was part of what was, if I'm honest, quite a significant group—there must have been 20 people in the room. Richard, myself and the team gave a presentation on the key components of how we thought we could get this business back up.

Q1155 Frank Field: And during this whole period—this year so to speak—you could phone up Sir Philip or he might phone you? It was sort of an area of knowledge that you could draw on was it?

Darren Topp: Not just Philip but Ian Grabiner, who was the chief executive, I sought on a regular basis to discuss the service level agreement, and other members of that team.

Q1156 Frank Field: Did Lady Green ever show up in those conversations or physically?

Darren Topp: Never.

Q1157 Frank Field: You were not aware that, in a sense, the ownership was there rather than with Sir Philip?

Darren Topp: My relationship was with Arcadia, the entity and the people in it—it wasn't just those two. We would be having discussions with a number of people.

Q1158 Chair: Mr Topp, you said that BHS was a brand under the Arcadia umbrella and it found it difficult to disentangle for practical, logistical reasons. Could you give us a flavour as to what extent Philip Green and Arcadia remained involved in BHS post-March 2015?

Darren Topp: From an operational point of view, they were providing a significant number of the services that we were using.

Chair: What would that be? Payroll?

Darren Topp: That would be, for example, that we were on their digital platform; they were running our payroll; they were running our financial accounts payable and accounts receivable; they were doing maintenance. There was quite a detailed programme, led by one of the team, of untangling all this in order to stand alone.

Q1159 Chair: And they were providing finance as well. Were they providing working capital support?

Darren Topp: There were a couple of occasions where the cash flow was tight—Michael may help me here—where we asked for a short-term loan in order to meet certain commitments.

Q1160 Frank Field: You said digital platform. Does that mean this was your platform to the world? They kept your public face?

Darren Topp: On the Arcadia platform, all the individual brands are on that website.

Chair: Thank you.

Q1161 Jeremy Quin: Can I just enquire a little more about the cash, if I may, Darren? And Michael may well want to come in.

Michael Hitchcock: Can I just correct something that Darren said just now?

Jeremy Quin: Please do.

Michael Hitchcock: Arcadia weren't providing loans. There are many ways that you can ask the key stakeholders in a business to assist you in facilitating cash flow, particularly when you are a creditor. Arcadia were a major creditor because of the flows of cash in terms of the concession moneys that used to flow from BHS back to the Arcadia business and in terms of the TSA arrangement and the fees that were required. They were like any other creditor: they needed to be paid at a certain point in time. If we needed an extension of cash, or a lift in cash, we would approach Arcadia and ask them for an extension of the credit days. I have to say that Arcadia were more than helpful on many an occasion to assist us with that process.

Q1162 Jeremy Quin: Thank you for that clarification, Michael. It is appreciated.

Turning to Darren first, but Michael, by all means, come in. I appreciate that, Michael, you came into the business after the deal was struck, so you had that period of time. I am very curious. I have a note—the Committee has—at the topco level of Arcadia of the cash and facilities available to BHS at the time of the acquisition, which stipulates that there was £94 million available on day one. Going through that, about £16 million was cash known for immediate future liabilities—VAT and the like, so cash that was required for a purpose. Perhaps £78 million would have been a more realistic number as to what was available.

I was very curious about one of the notes, which I think that you have now explained, about the proceeds from the sale of North West House. There is a note which says that £25 million went into BHS Barclays accounts and the balance was transferred elsewhere. I was wondering what that is. I think you have answered that, Darren, but can you explain what happened to that extra £7 million?

Darren Topp: I think this was done on day one of the transaction. What I discovered in the section 72 information was that it was sold to ACE for £32 million and £7 million went to RAL.

Q1163 Jeremy Quin: That's interesting. So of the £94 million cash available on day one for BHS to run the business, £16 million was for immediate or near-future liabilities and £7 million was taken out on day one from the proceeds of one of the asset sales. If you take out the £25 million working capital facility from HSBC, that really left you with £45 million of proceeds to invest in the business.

Darren Topp: Correct.

Q1164 Jeremy Quin: Michael, what was your sense, when you arrived in June, as to the cash position of the company and its ability to finance—

Michael Hitchcock: In July.

Jeremy Quin: Sorry, in July. What did you think of the cash position of the company and its ability to finance expansion?

Michael Hitchcock: This was my first interaction with Dominic Chappell and RAL. Like many others throughout this process, I think I was duped. I think the technical term is a mythomaniac. The layperson's term is that he was a premier league liar and a Sunday pub league retailer, at best. That is great in hindsight, but at the time—because I particularly wanted to meet Darren and the management team—highly credible. There was a highly credible turnaround plan that certainly had legs. It needed a lot of things to go right but, with cash behind the business, there was no reason why this business could not turn itself around. You need the cash. Businesses do not go out of business for making losses; they go out of business if they don't have cash. That is the long and the short of it.

I insisted that I wanted to meet Dominic because a lot of press and media reports that I had read pushed Dominic into a very interesting light, let's say. I asked him some very direct questions and he gave me some very direct answers. On the basis of those answers, you would believe him. I think that so many people in the process believed him, but he was a liar.

Q1165 Frank Field: Michael, on that point, we have this in our surgeries. People come to us with marvellous stories and then, all of a sudden, there is something they say that suggests this is not right. You described it better than me—a fantasist. At what point did you think, "Ah. This just doesn't add up"?

Michael Hitchcock: Within two weeks of being in the business.

Q1166 Jeremy Quin: Michael, continuing that line of questioning, now we are in that property sale, were the loan arrangements put in place between RAL and BHS and what were the nature of those loan arrangements?

Michael Hitchcock: I liken my situation to walking into a business, being given a thousand-piece jigsaw puzzle, and being told to make the picture up and try to understand exactly what that picture is. With a lot of what I learnt, I had to go back and almost investigate how these things unravelled.

Q1167 Jeremy Quin: And if you would do that for us now, we would be grateful. We have the same jigsaw puzzle.

Michael Hitchcock: Darren has articulated the £7 million loan on day one, which—

Q1168 Jeremy Quin: Sorry, it's a sale, so the sale happened. Then, from what I read, there was loan back from RAL to BHS.

Michael Hitchcock: There was an immediate loan back from BHS to RAL. The sale was made by BHS for £32 million, but £32 million did not come into BHS; £25 million came into BHS and £7 million went direct to RAL. It was accounted for via a loan from BHS to RAL. BHS did not get the full benefit of the £32 million sale of North West House.

Q1169 Jeremy Quin: What were the rates of the loan for RAL?

Michael Hitchcock: It was an inter-company loan, so it was a zero rate. It was just like any inter-company loan with any business.

Q1170 Jeremy Quin: Thank you for that. Darren explained to us how Mr Chappell had his own property team working with him. That must have been one of your focuses—trying to work through what the property transactions were. We will talk to Mr Chappell about this later, but was there anything particular that caught your eye or that you would like to share with the Committee about the property transactions that you uncovered while working through the jigsaw?

Michael Hitchcock: There were six pillars of the turnaround plan. The two essential pillars were property and the raising of finance. Property required the business to exit at least 30 loss-making stores and reduce the rents of the remaining stores to facilitate the cash flow to assist with the turnaround. That is point No. 1. Point No. 2 was the raising of capital based on the sale of properties and/or the leveraging of debt against the value of those properties. They did not happen. Dominic Chappell put up a supposed team of experts to address both those issues; they failed dramatically. The first three months of being in BHS was about engaging with the property landlords to help them understand how we needed them, as a key stakeholder, to engage in the turnaround of BHS. Every single one of the landlords I met, without exception, fully bought into the turnaround plan; they understood what we were trying to do and they said it was credible. What they did not give us was the support that we needed, which was a reduction in rents for a period of time to generate the cash.

It became very evident to me—and this was the proposal I made to the board—that the only way you would address the property issue in this business and reset the property portfolio and the rents was to do a property-led CVA. That proposal went in before Christmas. For lots of different reasons, and one in particular, RAL and Dominic Chappell chose to ignore that proposal until after Christmas and the trade that was softer than we wanted it to be. The main reason was there was an exercise being undertaken by RAL—led

by RAL and Dominic Chappell—called Project Herald. Project Herald was to set about removing the assets within BHS—primarily the international part of the business and the online business of BHS, which was profitable—and taking them outside the group and having them flowing directly into RAL.

Dominic and I only found out—[*Interruption.*] Sorry, I beg your pardon. [*Laughter.*] Darren and I only found out about this when, basically, RAL had spent up to £350,000 on adviser fees putting this so-called initiative together. We found out about it and, in a scene not too dissimilar to this, quite frankly, the day before black Friday, down in Dorset at an off-site management meeting, in the space of three hours we killed their so-called initiative as being completely unworkable. How they ever thought they could take assets out of the group at a time when it was desperate for cash and needed the buy-in and the support of the suppliers is beyond me. That just goes to show you the credibility and the ability of the people who Dominic surrounded himself with were not fit for purpose.

Q1171 Chair: And how did he justify that to you? This seems a schoolboy error by someone who has no idea about retail whatsoever, or about finance in general or running a business, so how did he justify it?

Michael Hitchcock: I fundamentally don't think he understood what was going on. I question his intelligence. He wasn't a retailer. The motive, as I see it—and I have the benefit of hindsight and unravelling some of these things—was purely for his own benefit.

Q1172 Frank Field: Aren't you underplaying it? It is irrational if you want BHS to be a success, but totally rational if you want the assets of BHS in another company, isn't it?

Michael Hitchcock: Dare I suggest it might have been a financial lifeboat? In the event that BHS fails—the stores fail—he has this other little bit that creates some value for him. And so long as the CVA was not taking place, he could not effect that transfer of assets.

Q1173 Jeremy Quin: One last question, Chairman. You have described vividly, Michael and Darren, what happened over that period of Mr Chappell's ownership. I think we have a good picture of that. I just want to go right back to the beginning. I know that is before your time, Michael. This note says there was £94 million of cash, so I can strip out £16 million of that for known future liabilities; £7 million, as was known to Taveta, was not actually in the accounts of BHS. The actual cash position was some £70 million, including a £25 million loan from HSBC. I just want to clarify that. The amount of free cash you had at the outset, when the ownership of BHS transferred into Mr Chappell's hands, was some £70 million, including a £25 million working capital facility from HSBC. What is your view on the sufficiency of that to underpin the turnaround plan that you were going to execute?

Darren Topp: I'm sure Michael can give you a more detailed financial perspective, but the truth was we had quite significant assets in the business that we could leverage against. We absolutely saw it as a combination of cash that was left in the business and assets that the business had in order to provide us with sufficient cash flow. As Michael said earlier,

I think we felt comfortable that if those funds came through, we did have sufficient cash to allow us to execute that turnaround plan.

Q1174 Jeremy Quin: So an effective property plan might yet have provided you with the cash you needed to turn around the business.

Darren Topp: The truth is that we went to the creditors at the CVA with what we believed was a credible plan. I presented that plan to the creditors on the day. What the plan called for was, first, the creditors to support it, which they duly did—unanimously, pretty much—but, as I said on the day, it also called for the raising of funds against assets of circa £90 million. Unfortunately, those funds did not get raised. What I would say is that I do believe that everybody tried to get those funds raised, but unfortunately a combination of the property transactions or potential sales fell through, and the ABL facility with Gordon Brothers just was not workable or practical and was expensive. The consequence of those two failures meant that we had no choice but to go into administration.

Q1175 Jeremy Quin: I just need this for information. In the context of the CVA—Michael may be able to tell us—what are the implications for the pension fund if you go into a CVA? Are there any consequences?

Michael Hitchcock: They fall into the PPF.

Q1176 Jeremy Quin: They do fall into the PPF. So in the plan you envisaged a CVA and the PPF taking on the pension fund.

Darren Topp: It goes into an assessment period—just to clarify that.

Jeremy Quin: Understood.

Darren Topp: We may well talk about the pension later, because Michael, the legal executive Dominic Chandler and I spent quite a bit of time during the autumn of last year trying to come up with an alternative proposal for the PPF for our pension fund. Having never been involved in pensions until last year, we were very mindful of the fact that we had a significant pension deficit, and we pulled together what we termed Project Vera, which was similar to Project Thor. We were in discussions with the chair of trustees, with the PPF and with TPR, with regard to trying to find an alternative to that pension fund going—

Q1177 Frank Field: Did you talk to Sir Philip Green about the pensions at that stage?

Darren Topp: We talked to Philip about pensions throughout last year—either me, Dominic or members of the team. To be clear, Philip made it clear on selling the business that the solution to the pension deficit fell, in his words, to a combination of him/Arcadia and BHS. He made it very clear that the solution—which I interpreted as the financial solution—

lay very much through a combination of his contribution, or Arcadia's contribution, and BHS.

Q1178 Chair: Michael, you mentioned Project Herald—is that correct?—and you mentioned the advisers. Do you know who the advisers were?

Michael Hitchcock: Grant Thornton.

Q1179 Chair: Do you know how they were paid for their work?

Michael Hitchcock: In cash? As you would expect an adviser to be paid—time-based.

Q1180 Chair: What I am trying to get at is: was it paid through BHS? Was it paid through RAL?

Michael Hitchcock: It was paid by BHS.

Chair: Thank you very much.

Q1181 Richard Fuller: Just to be clear, Mr Hitchcock, you were a finance consultant, so you were not CFO of BHS at the time.

Michael Hitchcock: I was filling the void left by a CFO. I was fulfilling the task that you would expect a CFO to perform, and others.

Q1182 Richard Fuller: In your experience, is it usual for an owner of a company to have a secret plan to hive off assets and then stick you for a £315,000 bill without telling you anything about it?

Michael Hitchcock: Mr Fuller, it is typical of the events that were going on during the Dominic Chappell ownership. There was so much happening above us that we did not know about. Darren was spending 90% of his time trying to govern what was happening above him and not focusing on what was happening in the business. That was just the event of what was going on. It was completely extraordinary, to say the least.

Q1183 Richard Fuller: Mr Hitchcock, you came to your conclusion that Mr Chappell was a fantasist very quickly—within two weeks, I think you said in answer to Mr Field. I assume you have not ever worked for Sir Philip Green or as a consultant for Sir Philip Green?

Michael Hitchcock: I didn't know Sir Philip before I joined BHS.

Q1184 Richard Fuller: I ask that because it appears that is only people who are not paid by Sir Philip Green or consulting to Sir Philip Green who can see that Mr Chappell is a fantasist. For everyone who gets money from Sir Philip Green that characteristic seems to pass them by.

Michael Hitchcock: I am sat here with the benefit of hindsight. Maybe two weeks was a short time to form that conclusion but, having got inside the business and based on what I heard from speaking to people, it became evident that the motives, dare I suggest, of Dominic Chappell and RAL were not what you would have expected from a 90% shareholder.

Q1185 Richard Fuller: Would you have thought that any reasonable person, with a reasonable background in either retail or finance, would have come to that conclusion as rapidly as you?

Michael Hitchcock: I don't wish to undermine my own ability but maybe—maybe they should have done. I don't know. There is a big smell test, Mr Fuller, which I adopt in a lot of these situations. It just did not smell right. If it doesn't smell right, invariably it is not right. Within two weeks we changed the bank mandate to stop any chance of money flowing outside the business that could only happen on the basis of RAL signatures, or RAL-associated people in the business.

Q1186 Richard Fuller: I want to move us back to the pre-period, just before the sale. On the inter-company services and other arrangements that were pre-existing—services that were provided by other entities within the Arcadia Group to the British Home Stores group—what was the value of those services? How much was the bill to BHS for those services in, say, 2014?

Michael Hitchcock: You have to remember that at the outset of BHS coming outside the Arcadia Group, they had nothing in terms of back-office services, or very limited. Basically, BHS had to replicate everything: HR, finance, tax, treasury. So the bill at the start would have been materially more than it would be in, say, January, because a lot of those services had migrated over as part of an internal project—Crystal—that the management team had adopted. It would have been in excess of £2 million a month at the start, dropping down to just over £1 million a month come the end, with all these services.

Q1187 Richard Fuller: So as an independent company, those services that you had previously been getting from the Arcadia Group you could source on the external market.

Michael Hitchcock: We were having to renegotiate all contracts.

Q1188 Richard Fuller: But at a lower cost.

Michael Hitchcock: Invariably, we were achieving lower costs. When you are in a big group, you can negotiate a contract that is right for the big group, but actually on an individual basis you may get slightly less of a good deal. When you can go out and independently do your own deals, you can get a much better deal, as Darren articulated earlier.

Q1189 Richard Fuller: What would you estimate the ongoing savings from that would be?

Michael Hitchcock: We had £12 million-worth of ongoing savings.

Q1190 Richard Fuller: So essentially £12 million a year excess was being taken out of BHS into the group for its services, the way it was priced.

Michael Hitchcock: As an independent business, you can be more efficient and you can get a better pricing structure.

Darren Topp: We changed some of the service levels as well. Nearly half of that saving was through the operation of our warehousing facility, where as a consequence of moving food to Compass, it meant we did not need to do daily deliveries. So there were some quite significant savings. The truth was that most of them we managed that—we brought a really great guy in to negotiate them—and a few of them were more expensive.

Q1191 Richard Fuller: Can I turn to Mr Price for the years preceding the sale, when you were battling with a company in difficult circumstances? What was Sir Philip Green's involvement with you during those early years when you were managing director?

Richard Price: It varied. Philip had a passion for product. He was very much involved particularly with women's wear and our home division. We had a very extensive Christmas gifting range, for example, and Philip would sit and personally review those ranges. He was at times quite heavily involved in the day-to-day business.

Q1192 Richard Fuller: So he was hands on.

Richard Price: Yes.

Q1193 Richard Fuller: And that was throughout your time as managing director.

Richard Price: Yes, and before.

Q1194 Richard Fuller: You would meet him once a month?

Richard Price: Oh no, a couple of times a week.

Q1195 Richard Fuller: So very involved in the business, yet the business was not growing.

Richard Price: No, albeit that in 2013-14 we had like-for-like growth for the first time in eight years. I would say that we paused the decline in sales. As I say, we did see the first growth in eight years, so were making some growth.

Q1196 Richard Fuller: Which year was that?

Richard Price: 2013-14.

Q1197 Richard Fuller: I have the accounts. They go £699 million of sales in 2012-13; £675 million in 2013-14.

Richard Price: Yes. It was like-for-like growth. There were a number of store closures.

Q1198 Richard Fuller: The top line was still going down but like-for-like was the same. You were still losing money and not able to arrest these losses, despite Sir Philip Green's active involvement in the business.

Richard Price: That is correct.

Q1199 Richard Fuller: Were you involved in putting together the turnaround plan that was the basis for the business subsequently being sold?

Richard Price: I was, yes.

Q1200 Richard Fuller: Can you tell us a little bit about who advised you on that and how you came up with the financial projections, as well as the strategy behind it?

Richard Price: We did it as a BHS board. Much of what was in that plan was in our plans already. We had been working, as Darren said earlier, on a number of projects. We were trialling a number of initiatives around convenience food and outsourcing the hospitality business. We had done some trials of some low-cost modernisations of the estate, which were proving to be fruitful. The plan was basically a waterfall of a number of initiatives that we had previously tried. Obviously, the major thing was predicated around the closure of the 30 stores, which we believed that the new ownership would enable us to do. That was the big change.

Q1201 Richard Fuller: Okay, so you had come internally to the conclusion that the only way that the business could have been turned around was not through trading your way out of problems, but through dropping some of the onerous leases.

Richard Price: I think it was a combination, but that was a big factor. We had a number of oversized, old stores that were very loss making. Closure was really the only way to see our way out. It was a solution to the individual stores. We thought that there was growth in the business. We had a difficult Christmas. BHS as a business is overexposed: we have a big Christmas gifting business and historically and traditionally we have been famous for knitwear and outerwear, but we have not had a cold winter for a number of years. The market was against us, but up until that point we were trading the business really well, and the online business had grown from £6 million to circa £70 million or £80 million in six years.

Q1202 Richard Fuller: Did you come to an assessment of how much money—how much additional new capital—the turnaround plan would require?

Richard Price: We had not done the granularity on that. We only had a week to produce the turnaround plan.

Q1203 Richard Fuller: A week?

Richard Price: Yes.

Richard Fuller: Why did you only have a week?

Richard Price: Because that was the time we were asked to present.

Q1204 Richard Fuller: I am a bit confused. So you had been doing stuff and then you had one week to produce a turnaround plan. What was the process there?

Richard Price: We had a plan that was basically predicated under the existing Arcadia/Taveta business. That was the plan that we were running with. Obviously, when the sale of the business was announced, we were asked to present, as a BHS board, what our turnaround plan would be to Retail Acquisitions Ltd and the rest of their team.

Q1205 Richard Fuller: It is very hard to come up with something new in a week, isn't it? Essentially, you will just say, "Well, we'll carry on doing what we're doing."

Richard Price: A lot of it was basically a continuation of what we were doing. We thought we were making progress in the business. With investment, we believed that we were on the right trajectory.

Q1206 Richard Fuller: If you are presenting to potential buyers, or are producing a document that is going to potential buyers, you would have had a cash flow forecast. What was the projected cash flow of annual cash requirements? Can you recall?

Richard Price: All the cash flow projections were done as part of the negotiations with the Taveta group. We were not involved in any of the negotiations with—

Q1207 Richard Fuller: So yours was a plan with no numbers attached.

Richard Price: It was a trading plan.

Q1208 Richard Fuller: Where did the numbers come from?

Richard Price: They were our numbers.

Richard Fuller: Okay.

Q1209 Amanda Milling: We have heard a lot of evidence over the past few weeks about Dominic Chappell's lack of retail experience, which Michael mentioned earlier. Picking up on Richard's point, Sir Philip Green is passionate about retail and is pretty hands-on. When it came to the sale of BHS, how did you feel about this issue of retail expertise and Dominic Chappell's lack of it?

Darren Topp: The truth is that we knew it. It was blatantly obvious but in order to complement the existing teams—you have an ops board with a couple of hundred years of retail experience, some of whom are new and some who have been there for a while—Dominic made a commitment that he would bring a big hitting retail chair. I think that was his quote to the press on acquisition.

We were really keen, and I in particular was keen, that the composition of the board change from what it was at the start. I joined the board in late April 2015, and it was pretty much friends and family who had helped him with the deal on the way in. I was very adamant that, from a governance point of view, he needed to honour his commitment to get a big hitting retail chair, and we needed some retail non-executives in order to provide the support, the governance and the challenge. Unfortunately, despite lots of different promises and challenges of Dominic to get this done—in fact, we did interview a number of people—there was always a reason why it didn't happen. It never did, unfortunately, despite a lot of external and internal pressure, including when we appointed the auditors—they did a governance check audit for us, which clearly identified that the board composition needed to look different. Again, the board needing a different composition was a strand that Michael and I pushed.

Q1210 Amanda Milling: You had been calling for that. Am I right in saying that, because of the importance of the property initiatives in this, what he said in terms of his property expertise was—

Darren Topp: It was really quite important. His lack of retail experience, at the time, was compensated for by his comments that they were property experts and raising finance experts, and those were areas in which they could provide significant expertise. That was great, because the plan called for two big pieces of work around both of those initiatives.

Michael Hitchcock: The balance sheet Arcadia left for Dominic was stacked full of property value. It was incumbent upon a property expert, aligned with a corporate finance expert, which Dominic said he had as part of his crack team, to come in and raise finance against that property. It was absolutely essential that that happened.

Q1211 Chair: You say the balance sheet was stacked full of property-related assets?

Michael Hitchcock: In my mind, the value on the balance sheet was sufficient, if it had been leveraged appropriately, to generate the cash needed to turn the business around.

Q1212 Chair: Can you reassure us that in the run up to March 2015, Arcadia and Taveta did not cherry-pick assets to weaken the balance sheet for Arcadia's own purposes?

Michael Hitchcock: I was not there so I can't really comment. All I can express is that on the balance sheet I saw there was sufficient value that, if leveraged correctly, sufficient funding could be raised to give the business a far better chance of turning around than Dominic Chappell and his group of so-called experts delivered.

Q1213 Chair: Darren, you were there. Did that happen? Was there some degree of cherry-picking of property?

Darren Topp: I am trying to think. There was no property that I was aware of that was moved from BHS into Arcadia pre-acquisition. The property function was done centrally at group, so it was not always immediately obvious to us in the brands whether there were loans on any of the properties or who owned what—it wasn't obvious. We would know if there were stores that they were proposing to sell or close because Richard and I would clearly be consulted on that, but I was not aware that any assets were taken.

Q1214 Chair: But there could be BHS stores that were not on BHS's balance sheet, because it could be part of Arcadia. It would be accounted for under Arcadia's balance sheet as opposed to BHS's. Is that fair?

Darren Topp: Potentially, it could be.

Michael Hitchcock: If they were the landlord of that property, yes.

Chair: Amanda, I interrupted. I apologise.

Q1215 Amanda Milling: When you were having those discussions with Dominic Chappell, were there any alarm bells? You smelled something was not right later on, but were there any reservations during that period of sale?

Darren Topp: During the sale?

Amanda Milling: Yes.

Darren Topp: I only saw Dominic twice properly in a formal setting like this. I didn't actually speak to him on my own until post transaction. I brought Michael in because I had some concerns based on section 72. Michael was warmed up, if you like. I was honest with Michael, clearly, in the recruitment process about some concerns I had, so Michael was warmed up on—I was feeling uncomfortable here that it wasn't quite what it seemed.

Q1216 Richard Graham: Mr Hitchcock, you said earlier that Dominic Chappell was a liar. Could you recap for us what were the main ingredients of the lies?

Michael Hitchcock: If someone stands up in front of you and says, "I've put £10 million into this business, I've got a property expert and I've got a corporate finance expert that can generate sufficient funds to turn this business around," and you don't deliver, that's lying, as far as I'm concerned.

Q1217 Richard Graham: Then later on, you described his motives as a "financial lifeboat?" What is your assessment of how much money he took out of the business?

Michael Hitchcock: RAL took out £17 million—fact. Arguably, he put 10 of that 17 back in—fact. No one wanted the business to fail, for lots of different reasons. I think Dominic didn't want it to fail because it allowed him to continue to draw on his little revenue streams that he could generate on the sale of properties and other events that he wanted to create.

Q1218 Richard Graham: So net-net, what is your analysis of what he put in against what he took out? A figure of £25 million has been mooted.

Michael Hitchcock: You can get to £25 million, but there are so many numbers in this mix. I can get to £45 million if I add loads of different numbers in, but RAL took out £17 million—fact. They put in £10 million—fact. As to how much money they owe other parties, I don't know, because I'm not close enough to the RAL accounts.

Q1219 Richard Graham: Thank you. Mr Topp, who hired you?

Darren Topp: Dominic Chappell.

Q1220 Richard Graham: What made you think that was a good idea?

Darren Topp: I had worked there for a considerable amount of time. I was very passionate about the brand. I thought we had a great team of people. I believed, certainly initially, that Dominic, with his experts—he had invested a lot of his own money and I believed that we had a good turnaround plan. If I am completely honest, it was an honour to be asked to do the job. They gave it me on an interim basis and then they promoted me to permanent CEO later in April.

Q1221 Richard Graham: You said that when the section 72 notice came from the Pensions Regulator, that was a sort of seminal moment. What exactly happened and how were you and Mr Chappell going about dealing with the pension fund deficit? What meetings, for example, did you have with the trustees, and so on?

Darren Topp: I think it is fair to say that we were very much conscious of the pension fund deficit. We were aware that there was a repayment in place and that there was a contribution that had to be paid from BHS and had to be paid from Arcadia. All of us wanted to find a solution to the pension fund deficit, because we felt it was the right thing to do for the people—because 6,000 of those pensioners work in the business—and it would clearly hinder the business in the long term to have that kind of deficit on the balance sheet.

Q1222 Richard Graham: What meetings did you have to discuss it? Who was there?

Darren Topp: We would discuss that as a board, and we agreed that me, Michael Hitchcock and Dominic Chandler, our legal representative, would try to put a proposal together on how we could resolve this deficit.

Michael Hitchcock: It is important to note that there were so many advisers advising TPR, the PPF, the business and RAL that in some of these meetings it was like a tea party. There was just a mass of people. You were never going to find a solution with such a huge number of people in the room. It was never going to happen.

Q1223 Chair: In your experience, Michael, was that an unusual practice? Given your background, you didn't usually have as many advisers in the room as that. This was striking.

Michael Hitchcock: You cannot find a solution by committee. You need to come up with a small team that makes a workable solution, and then you take it into the bigger committee. It was like a Mexican stand-off. Everyone was dancing around the handbags. It was crazy to see.

Q1224 Richard Graham: When was the meeting when you decided to have this small group of three?

Darren Topp: This was in the summer, shortly after Michael joined. In our view, we needed to find an alternative.

Q1225 Richard Graham: What happened next?

Darren Topp: We did engage with Grant Thornton. We got a consultant from Grant Thornton to work up what a pension proposal would look like that was better than the PPF for the members.

Q1226 Richard Graham: Were you drawing on Project Thor? Did you have the details of it at that stage?

Darren Topp: We had seen Project Thor's headlines but we needed to update the data, so that is why we needed Grant Thornton. A combination of me, Michael and Dominic came up with what we called Project Vera, which was a proposal as an alternative to the PPF. I think we first discussed that in the first week in September with Chris Martin. Michael and I were at that meeting. We went through what we thought was, frankly, an attractive alternative to the fund going in the pension, for everybody.

Q1227 Richard Graham: What would have been the impact on the members of the pension scheme, particularly the less well-off ones?

Darren Topp: The alternative—the benefit was that it was better than the PPF and it was more flexible than the PPF, so we believed that it was a significant improvement. But you are absolutely right, the members had to take a—the way it was calculated, the CPI versus RPI, the benefits were not as—

Q1228 Richard Graham: They would have had to have taken a haircut.

Michael Hitchcock: Circa 7%.

Q1229 Richard Graham: Seven per cent; thank you. What was Arcadia and Philip Green's involvement in those discussions? You said earlier that it was going to have to be a joint effort by Arcadia and BHS. What was he putting on the table?

Darren Topp: He was aware that we were doing it, but we hadn't had conversations about the funding arrangements. What we wanted to do was to understand what the plan would look like. We felt we had got a responsibility to do that. We put a proposal together. It was costed. Unfortunately, I wasn't at the meeting where we presented it to the PPF and TPR, but Michael was.

Q1230 Richard Graham: Right. But you still haven't quite answered the question. What was Arcadia's commitment? What was Philip Green going to put on the table?

Michael Hitchcock: Arcadia always knew they were part of the solution, from start to finish.

Q1231 Richard Graham: So what was their contribution going to be?

Michael Hitchcock: We never got to that stage. We took the proposal to the PPF and TPR and we got a very—it said no.

Q1232 Chair: Who said no?

Michael Hitchcock: TPR and the PPF.

Q1233 Richard Graham: Why didn't you have a discussion with Arcadia earlier, though, to see what their contribution was going to be? It was going to have a major impact on the BHS balance sheet, apart from anything else.

Darren Topp: In the context that, if it was not acceptable to the PPF and TPR, there wasn't really any point.

Frank Field: So the value put to them assumed a subvention from Arcadia. Correct?

Chair: Richard, can I just move on? I am very conscious of time.

Q1234 Richard Graham: Can I just ask Richard Price a couple of key questions? Mr Price, at what stage did you become aware of Philip Green's intention to sell BHS?

Richard Price: Towards the end of January—26 January 2015.

Q1235 Richard Graham: You didn't know anything about it before then?

Richard Price: No.

Q1236 Richard Graham: What was your own assessment of the business at that stage, in terms of its viability?

Richard Price: I think, as Darren outlined, the business was losing a significant amount of money. I knew that when I joined the business. It was clearly a big challenge that we had, but looking at the business from outside, I felt that there were lots of opportunities,

particularly from a product point of view. My background is from the product arena. I felt that we could make significant improvements to the ranging and to the sales and, as I said earlier, we did achieve the first growth in sales.

Q1237 Richard Graham: So how was the intention to sell put to you? What were the ambitions behind it, the stated aims of the sale and so on?

Richard Price: Sir Philip got us all together as a board, announced that he had an interested party and explained that it would be a great opportunity and that there would be investment in the business. There was a premise, particularly around the property, that the new owners would be able to do things that, as we said, the Arcadia business could not do.

Q1238 Richard Graham: How did he explain the interested party? What did he say about the interested party?

Richard Price: At that stage he did not give a huge amount of detail. He obviously explained that a significant amount of due diligence had been done by the Taveta group, that everything had been costed and it was very credible.

Q1239 Chair: Did he go into any more detail about the due diligence that had been done?

Richard Price: Not the specifics, no.

Q1240 Chair: Can you remember the wording that was used? Did he actually say those words: “The due diligence has been done”?

Richard Price: I cannot recall the exact words. It was implied that they had spent a lot of time understanding the nature of the investment finances—that members of the Taveta board had spent a considerable amount of time going through—

Frank Field: He was not chairman of Arcadia but, from your answers to Richard, he turned up to tell you he was going to sell. I am just interested in how important Sir Philip was in all of this. Even though he was not chairman of the board, he would just turn up and say that he had decided to sell.

Q1241 Richard Graham: Can we pursue that, Chair? Mr Price, when was the sale announced to you and the board? Did you hear about the final decision to sell the day before it was announced publicly? How did that process work?

Richard Price: I believe it was on the day it was ratified, essentially.

Q1242 Richard Graham: What was the message given to you and the board at that time? Were all the senior managers there?

Richard Price: We were all there.

Q1243 Richard Graham: What was the message?

Richard Price: The message was that this was a great opportunity. There was lots of positivity that there was going to be significant investment in the business. Essentially, it was sold as a form of management buyout—it was a backing of the BHS board. There was an acknowledgment around the lack of—

Chair: Richard, I'm going to have to move on. I apologise, but I'm conscious of time. Jeremy?

Q1244 Jeremy Quin: Two questions. First, you took Project Vera to TPR. Clearly it fell through, for one reason or another—the numbers may not have stacked up—but what were the questions that TPR was asking you, and why did Project Vera not succeed?

Michael Hitchcock: There were so many people in the room. I honestly cannot remember the questions that were coming back. It was a jamboree, again.

Q1245 Jeremy Quin: I would be concerned that the questions they may have been asking were related to historic dividends and the money taken out of BHS, even prior to Dominic Chappell's owning it. Is that fair or is it unfair?

Michael Hitchcock: I am absolutely certain it was all of the above.

Jeremy Quin: So TPR's questions were—

Michael Hitchcock: They were very credible questions, I am sure. But my take on this is that the pension fund did not have to go into the PPF. It absolutely did not have to go into the PPF. There was a solution to keep it out of the PPF on the table more than once. I have to suggest, if I may be so bold, that the process of TPR and the PPF is not fit for the current commercial world. It is cumbersome, it is not commercial and I do not think it is acting in the best interest of the pensioners, who unfortunately in this situation will suffer.

Q1246 Jeremy Quin: This is one of the points I wanted to get to. We can explore this at a later date, Chair, but, Michael, you believe that there are process issues that contributed to the fund going into the PPF?

Michael Hitchcock: Absolutely.

Q1247 Jeremy Quin: Thank you. I have another question entirely, and you may have answered it in what you just said, but we were hearing yesterday that Dominic Chappell appointed advisers on the basis that he would not have to worry about the pension fund—that when he acquired BHS, it would be debt-free and the pension fund would have been sorted. That was the basis on which he initially appointed advisers. In your view, do you think Dominic Chappell took the view that there would be a CVA and he would lose the pension fund as part of his turnaround plan?

Michael Hitchcock: I cannot comment, because I was not there, but I would dare to suggest that Dominic is not intelligent enough to come to that conclusion.

Jeremy Quin: That is very clear.

Q1248 Frank Field: Michael, when you said that the negotiations with the regulator were like a jamboree, with so many people there, was that because of the number of people you took or the number of people they had there?

Michael Hitchcock: Definitely the number they had.

Q1249 Craig Mackinlay: Very quickly, because we are short of time—the turnaround plan had three legs or a tripod. No. 1 was the trading side of things, which I assume Mr Price and Mr Topp had involvement in. The other two, of course, were the capital raising and the property changes. Now, you obviously had control of the trading bit of the turnaround plan. Subsequent to the sale, were the margins and turnovers actually on track to do what the turnaround plan or the business plan had suggested?

Darren Topp: The short answer is no. In the year of ownership, our like-for-like sales were broadly flat; they were down 0.2%. Now, our biggest competitor, which was Marks & Spencer—

Q1250 Craig Mackinlay: What I am trying to get at is, you put the plan together. Did it stick to the plan? If it didn't, why not?

Darren Topp: I think it is quite interesting. It didn't. That is fact. As I said, for the year, our sales were broadly flat—down 0.2%. The non-food sales of our biggest competitor, Marks & Spencer, were down 2.9%. So you could say that, relative to our biggest competitor, our performance was pretty good. The truth was that it wasn't enough—and that is absolutely true. We missed the forecast. We do not believe that it was because of the material reasons that the business ultimately ended up in administration because, as I have said already, that was because we did not raise the finances post the CVA. But it clearly did not help. It put additional pressure on the business, and this was a business that, sadly, did not have a balance sheet like Marks & Spencer, which could cope with difficult trading conditions. That's the truth.

Q1251 Craig Mackinlay: Okay, but your team—were you focused too much on managing this upper team and having worries elsewhere? Mr Hitchcock, you were obviously trying to piece together a balance sheet and you were not quite sure what was there. Was that detrimental to these trading plans? Were you being diverted elsewhere?

Darren Topp: There was no doubt that my time was diverted elsewhere, which did not help. That was coupled with the fact that the cash did not come in when we needed it to do the capital expenditure for the food introductions, the modernisations of stores and so on. Unfortunately, we had a number of headwinds but the market was difficult.

Michael Hitchcock: Can I add something? I think Darren is underselling himself. Darren is a very good retailer but when your very good retailer of an £800 million retailer is spending 90% of their time trying to ensure that the governance above you is in order, is it any wonder that the turnaround plan has not been delivered?

Q1252 Frank Field: But also, Michael, the people above were trying to get assets away.

Michael Hitchcock: That is part and parcel of the governance. You have to have a governance structure in place. It did not exist from the bank mandate that we changed very quickly to the composition of the board. The board was not fit for purpose. You cannot have friends and family on the board of an £800 million retailer.

Q1253 Chair: Which board?

Michael Hitchcock: The BHS board. If you have your uncle as the chairman, the family's best friend as one of the non-execs and Dominic Chappell on the board of BHS, the board composition is already in the majority of friends and family.

Q1254 Chair: Or your wife in Monaco.

Michael Hitchcock: Where does that come into it?

Q1255 Chair: I am just thinking about how cash is taken out of businesses.

Michael Hitchcock: I can only speak for the time when the lady in Monaco and her husband did not play a part in it. I was there when RAL owned it.

Chair: Thank you.

Q1256 Amanda Solloway: For my clarification, you said something that I thought was really interesting. You said that originally Sir Philip was getting very involved and having meetings twice a week. Clearly at that point he was thinking that it could be a viable

retail concern that BHS would have a future. At what point did that change? Also, when it went to RAL, was it still considered a viable retail concern?

Richard Price: Absolutely. Just to be clear, Philip got involved with all the brands. He has a passion for products. He enjoyed and added value to those kinds of meetings. That was not unusual—one or two meetings a week out of probably 10 or 15 that we would have had—so whilst he was in the business I would not say that he was hands-on, day to day, running that business.

I don't think we felt any different, from a trading point of view, the day before the acquisition from the day after. A lot of the things that we thought we could do to turn the business around were in place and trialled, and were a continuation of what we were already doing as a board. The board was pretty much the existing team that Darren and I had assembled over the previous two years. That did not change.

Q1257 Amanda Solloway: In your view, Mr Hitchcock, do you think that when RAL purchased BHS for £1 it could possibly have been a good, viable retail concern?

Michael Hitchcock: I wasn't there. I am only coming at it from the point of coming in. But even when I came into the business, that business was definitely ripe for turnaround. Provided that the cash flows were generated, either through property sales or corporate finance debt raising, that business was ripe for turnaround. I absolutely firmly believe that.

Q1258 Michelle Thomson: This is a quick question for Darren and Michael in particular. Do you know anything about loans from BHS to Colin Sutton?

Michael Hitchcock: No.

Q1259 Michelle Thomson: That's fine. With the benefit of hindsight, which you clearly explained, do you believe that Dominic Chappell came in with the express intention of taking assets out of BHS, or did he genuinely have a plan to turn it around?

Michael Hitchcock: Dominic did not want BHS to fail; no one wanted it to fail; but as time progressed you could clearly see, in my own eyes, that the motives were not necessarily right. I mean, you don't take out a £7 million loan from a business you have just bought that requires cash to turn itself around. That does not make sense.

Q1260 Chair: Following on from that, with a question for Darren and Michael, could you tell us whether it is true that Dominic Chappell tried to take £1.5 million out of the business and put into a company called BHS Sweden?

Darren Topp: That is true. Michael had left the business at that point. I got a call from my head of treasury, Harry, to say that £1.5 million had been removed via a manual transfer to BHS Sweden. My initial reaction, if I'm honest, was to call the police, because I

was not aware of that transaction. That is a substantial amount of money and this was during the CVA—we're at the end of the process.

I said, "Well, I'll tell you what, Harry"—because I know Lennart, the other director, who is a friend of Dominic, is Swedish—"before we call the police, let me ring Dominic." I rang Dominic and he knew about it straight away. I said to him, "That's theft." Now, if I take out all the expletives, he basically said, "Do not kick off about this, Darren. I've had enough of you telling me what to do over the last few months. It's my business, I can do what I want. And if you kick off about it, I'm going to come down there and kill you." Then he threatened to kill me again; and I know it sounds silly, but, you know, apparently he says he was in the helicopter squad of the SAS. I know he's got a gun; there was a little bit of me that thought—and I said to him, "You threaten me like that again, Dominic, and I'll call the police," which he didn't. Now, maybe I shouldn't have called him a thief, but as far as I was concerned it was theft.

What I said to Dominic was: "That money is for the salaries of the people who work in this business. This is for the teams that work in our stores. That's what the money's for, not the directors." He said, "No. You've never done an administration before, Darren. You do not know what it's like. There'll be hell to pay and costs to pay, and I want to make sure I look after my home team." Now, his "home team" were his words he used to describe, clearly, the RAL team. I told him it was completely unacceptable; that money had to come back.

To be fair, on discussing it with all the board members of BHS and RAL, we were unanimous that that money had to come back. We had a board meeting two days later. The night before that board meeting, Dominic wanted to table two additional points: my removal as a director of BHS and the removal of Dominic Chandler as a director of BHS, because he had also rung Dominic Chappell to tell him that it was theft. He is a lawyer and was able to describe what theft is in a legal sense much better than I was. At the board meeting, Dominic agreed to return the money, which he duly did, minus £50,000.

Q1261 Chair: What was that £50,000 for?

Darren Topp: He said that that was associated with fees. I understand that the administrators now have had all the money back. It was just the worst possible thing to do, in my view. This was for the salaries of people not on hundreds of thousands of pounds a year; they were on £7 an hour working in our shops. It was disgusting.

Q1262 Frank Field: Thank you for coming. We are obviously concerned about the 20,000 pensioners, but there are 11,000 working in the stores, and a lot of them will be watching this. Clearly the message is that had a serious person bought BHS, it could have been turned around and they could have been facing a future of continuing to work for a reshaped company, instead of facing what they are now facing.

Darren Topp: Yes. And what I would say, Mr Field, is that we have a very dedicated workforce who are passionate about this business. To announce to the 1,000 people I spoke to

on Thursday of last week, either via conference call or in person, that this business would probably not exist anymore, was the saddest day of my working career.

Q1263 Frank Field: I went on one of the BBC shows about this issue, and beforehand I went to John Lewis to see what the morale was there and then immediately went into BHS. If anything, the morale and professionalism in BHS was higher than in John Lewis.

Darren Topp: That is testament to the people who work there. During the administration our absence was half our normal rate. That tells you the type of people who work in our organisation.

Q1264 Frank Field: It makes the contrast between this and Mr Chappell even greater, doesn't it?

Darren Topp: Indeed.

Q1265 Chair: Sorry to interrupt. Do you know where Mr Chappell was when the administration was announced?

Darren Topp: We do, because I know he was on his boat. I think he has confirmed in a newspaper today that he was on his boat in the Bahamas. He did tell the team that he was having an eye operation in America and, frankly, I think it is unacceptable that he was not in the business that day; everybody else was. Whether they were BHS directors or retail acquisitions, everybody else was in the business that day.

Q1266 Frank Field: And he was off having a fantasy eye operation.

Darren Topp: According to the press he was trying to negotiate some funds—allegedly.

Q1267 Richard Graham: Mr Price, I just want to go back. You ran the business from 2012 to 2015. You described how you first heard of the sale of BHS and then, when the sale was announced, this feeling of excitement that there was going to be new investment, the turnaround and the plan that you had put forward perhaps going through. We have heard from Mr Hitchcock and Mr Topp how the turnaround could have succeeded. Why did you leave?

Richard Price: I had already made the decision to move on in December, so I resigned from the business before any knowledge of the impending sale.

Q1268 Richard Graham: Why did you decide to leave?

Richard Price: Because I was approached by Tesco to run their clothing division and I thought it was a very good career move for me. It was purely a personal decision.

Q1269 Richard Graham: It wasn't connected in any way with your gut feeling that BHS, as *The Sunday Times* put it recently, was a history of everything that was wrong with the retail sector in the 21st century.

Richard Price: No. I assure you I had not actively looked for a new position outside BHS. As Darren said, I enjoyed my time there and they were some of the most amazing people I have ever worked with. It was purely because a great opportunity came up at Tesco.

Q1270 Richard Graham: Personally, why do you think the sale was pushed through so fast to someone with no retail experience at all? Was that not rather surprising from someone of Philip Green's very high reputation as the king of retail?

Richard Price: Again, hindsight is a wonderful thing. At the time the lack of retail experience was acknowledged and it was very much deemed to be that these guys had the property expertise and the finance to support the BHS board. We felt like it was a management buy-out. At the time—even though I had already made the decision to leave the business—I worked with the existing team as hard as we possibly could to put down the turnaround plan and to come up with a credible solution. There were people in the room—there was a guy, Alan Jacobs, who was on the board of a number of retailers—who had retail experience. As Darren said, we were promised a big hitter; a big chairman CEO was going to come along and be the guiding light. That was also a big promise that never materialised.

Frank Field: Richard, although *The Sunday Times* made these comments about this being a basket case, for lots of my constituents going to BHS was actually a good deal. I was trying, but people have beat me, to dress totally in BHS stuff to show that as a bloke—maybe it is different for a woman—it is quite possible to dress reasonably from there. I actually deny this idea that nobody was going there and nobody wanted to buy the products. Certainly for people on a modest income, it was actually a very good deal.

Darren Topp: We had 1 million customers a week, and we took £700 million of sales.

Chair: Gentlemen, thank you very much for your evidence. I think I speak for all the Committee when I say that that has been absolutely invaluable to us. Thank you very much.

Examination of Witnesses

Witnesses: **Mark Tasker**, Former Director, Retail Acquisitions Ltd, **Eddie Parladorio**, Former Director, Retail Acquisitions Ltd, **Stephen Bourne**, Former Director, Retail Acquisitions Ltd, and **Aidan Treacy**, Chief Financial Officer, Retail Acquisitions Ltd, gave evidence.

Q1271 Chair: Gentlemen, thank you very much for being patient. We are very grateful that you are about to give evidence. I am keen to get on to the next panel, so I hope we can do this within half an hour. I am asking for succinct answers, but I am also appealing to colleagues to be as brief as we can with questions, too. For the purposes of the record, could you perhaps briefly tell us who you are and when you were involved in the sale and acquisition of BHS?

Stephen Bourne: I am Stephen Bourne, and I have 30 years' experience of working on corporate transactions. For 20 of those years I was a partner in two medium-sized accountancy practices. I met Mr Chappell at the end of October 2014, and I became a director of RAL on 5 December 2014. I retired as a director of RAL on 11 March 2015.

Aidan Treacy: My name is Aidan Treacy, and I joined Retail Acquisitions on 2 November 2015. I was appointed to the board in December 2015 as chief financial officer of Retail Acquisitions. I resigned on 24 May 2016, and for a period in late March and April I was acting CFO of BHS.

Eddie Parladorio: My name is Eddie Parladorio. I am a senior partner of Hanover Bond Law. I joined Retail Acquisitions on 5 December 2014, and I resigned from it on 24 May this year. I joined as general counsel to RAL.

Mark Tasker: My name is Mark Tasker, and I am the head of corporate and commercial at the law firm Bates Wells Braithwaite. I was appointed as a non-executive director of Retail Acquisitions on 5 December 2014 to form part of the acquisition advisory board of RAL in connection with its acquisition of BHS. I undertook that role entirely in a personal capacity. I resigned from that position on 11 March 2015, which was the day of the acquisition.

Q1272 Chair: May I ask you all how you became involved in this? How did you become involved and associated with Dominic Chappell?

Stephen Bourne: I was introduced to Mr Chappell by Mr Tasker.

Q1273 Chair: When was that?

Stephen Bourne: That was on 30 October 2014. In my first meeting with Mr Chappell he explained to me that he was acquiring BHS. He had been invited to make an approach to buy BHS by Sir Philip Green. He had met Sir Philip Green earlier in 2014 in connection with another transaction. The deal was that there would be £250 million-worth of debt-free property assets and the pension fund deficit would be taken care of. The funding was in place. He was about to go and see Goldman Sachs. He needed to put together some people to help him transact the deal. He was looking for someone experienced in corporate transactions.

Q1274 Chair: But the message was clear: Sir Philip Green had almost asked Dominic Chappell to buy BHS off him?

Stephen Bourne: That is what I was told. They had met each other on a previous deal and it was suggested that he could buy it.

Q1275 Chair: Mr Treacy?

Aidan Treacy: I first met Dominic Chappell in March or April 2014. I was introduced to Dominic through a contact of mine in the restructuring arena—an insolvency lawyer at a well-known London law firm—who said what they were looking for was somebody with restructuring experience. They were looking to announce themselves on the retail scene by an acquisition of another distressed business that was in administration—a smaller retail furnishing business called Paul Simon, out of east London. They wanted somebody to do some due diligence on that and to advise them on whether it was a worthwhile investment. A couple of people recommended me, so I worked for Dominic Chappell at that time for two weeks. In the end, we all recommended not going ahead with that particular deal.

Eddie Parladorio: I met Dominic Chappell in the early part of 2014. He was already beginning to look at the possibility of an acquisition of BHS. He asked me if I could assist and help with the initial phase, which I was happy to do. By around the middle of 2014 he appeared to be more seriously interested in that and was driving it forward. He then, within a month or two of that, asked me if I could assist him to put some people on the board who had relevant experience and could assist with the business of putting proper, legal accounting teams together to properly assess and do the due diligence. I then introduced Mr Tasker, on my left, as a corporate lawyer, who I believed would be a good person for that function. As we proceeded towards the end of 2014, the level of activity increased significantly and we were asked to meet with Goldman Sachs, which was the gatekeeper for Sir Philip, as I understood it, and matters then proceeded through to completion.

Q1276 Chair: You are not the only person who says that Goldman Sachs was the gatekeeper. How was that demonstrated?

Eddie Parladorio: It was demonstrated in that it was made clear to me that it would be the gatekeeper for this effectively new company that was going to acquire BHS. It wanted to see who was behind it, the plans, the finances and so on. There was a meeting at Goldman Sachs's offices during December, which I attended. There were discussions; certain documents were prepared and produced. It appeared to carry on for a month or two, as I recall, seeing what was what.

Mark Tasker: To be succinct, I am not entirely sure I have got much to add, but yes, Mr Parladorio introduced me to Mr Chappell in early October. In very much the same way as Mr Bourne has described, that was to form the acquisition advisory board in connection with a possible acquisition of BHS. All of the other salient points that Mr Bourne has mentioned were also part of my understanding of how the deal was going to be put together.

Q1277 Chair: I am keen to get is a flavour of the corporate governance approach in Retail Acquisitions Ltd. How did that work? What was the culture of RAL, and what was the role of Dominic Chappell within that?

Stephen Bourne: First of all, RAL wasn't a business. Mr Chappell had agreed a deal with Sir Philip Green, which was at a very advanced stage. On the side, when he started the deal, he created a £1,000 share capital company, so there was no entity and there were no executives; it was simply a vehicle to effect that transaction. The deal had three phases. There was the phase up to December, when Goldman Sachs said there was no deal and everything was off. There was the period in January when there was a lot of speculation in the press about BHS being for sale, and during that time we were getting messages from Mr Chappell that he was in discussions, via Goldman Sachs, directly with Sir Philip. Then, by the end of January, it appeared that a new deal had been agreed, and it moved on from there. So, there were frequent communications but not so many meetings, because it was a single purpose company—there was only the deal to talk about—but I would say that we got emails updating us every couple of days.

Q1278 Chair: But there were no board meetings to be able to challenge and scrutinise the extent and accuracy of due diligence.

Stephen Bourne: There was a tremendous amount of work that we were doing in real time on due diligence; we were talking practically every day during the due diligence period. So, because we were all involved in the due diligence—in managing Grant Thornton, managing Olswang, managing the property side of things and managing negotiations—there was constant communication.

Q1279 Chair: Mr Tasker, you want to come in on that.

Mark Tasker: I just wanted to say that, in exactly the same way that Mr Bourne was illustrating, there was constant communication, constant scrutiny, constant questioning and challenging and looking for updates, but there was no formal business as such for the board of Retail Acquisitions to conduct during that time. The formal business would have arrived at the time of the acquisition.

Q1280 Chair: Mr Treacy, how was corporate governance in RAL?

Aidan Treacy: Again, my period from November onwards—an important point is that I joined in November following recommendations on corporate governance for BHS. Darren and Michael, whom you met earlier, had engaged RSM to produce a report on corporate governance and to introduce corporate governance more befitting a public company. BHS had a remuneration committee, an audit and risk committee and a board as well. They were working towards establishing the governance between the operations board and the corporate board.

In terms of Retail Acquisitions itself, for much of the time I was there, there were three directors. Our purpose was that we were managers. We were the management holding company, and that is defined in a certain way. Our role was to be managers of the subsidiary

group, and to a great extent the work that we were doing was at a BHS level. We would engage with BHS practically by having weekly executive meetings at 11am on a Monday where Eddie Parladorio and I would attend with Darren Topp, Michael Hitchcock and two or three others from the operations board and go through the priorities. As we went through the process in March, there were more formal board meetings where we were reviewing the performance of BHS as a board. In the main, almost as Stephen talks about, most of what we were doing was discussing and reviewing as directors what was happening in our 100% subsidiary BHS Group Ltd.

Q1281 Chair: Anything to add to that?

Eddie Parladorio: I don't have much to add to that. I agree with what has been said.

Q1282 Chair: Essentially, am I right in thinking that RAL is a shell company—a special purpose vehicle?

Aidan Treacy: It was established as a special purpose vehicle.

Q1283 Chair: Why was £7 million required then? Some £7 million was taken in management fees. Is that fair? That is accurate, isn't it?

Aidan Treacy: I think it was slightly less than that in terms of £7 million. Is your question, "Why was the money taken from BHS?"

Q1284 Chair: Yes.

Aidan Treacy: May I ask one of my colleagues who was around at the time to answer that?

Q1285 Chair: Mr Bourne, I looked at you first, unfortunately.

Stephen Bourne: Yes. I left the board on 11 March and was not involved in the accounting, but I did see two emails in the week following 11 March that I think are relevant. If we are talking about how fees were paid and that £7 million, if it was £7 million—

Q1286 Chair: And the rationale behind it—why was that needed?

Stephen Bourne: The fees from the transaction went through—there were various stages to the transaction, and the funding of the transaction changed throughout, and that is probably worth expanding on if you are interested in that area. Specifically to the end, there were two emails in the week following 11 March that relate to this. One said that an amount of money had been transferred from the Olswang client account to RAL, and another said that

a transfer was due from Arcadia to RAL in respect of the sale of Marylebone House. It was the second transfer—this was my understanding all along—that would cover the fees of the deal. Included in the figure of £94 million of cash at the end of the transaction was a figure of £8.5 million. That payment was outside the BHS Group. It was money due to RAL in relation to the sale of Marylebone House, an asset that was outside the BHS Group, from Sir Philip Green.

Q1287 Chair: Why was the treatment carried out like that?

Stephen Bourne: When the deal came back on in January, there was a parallel transaction. There was the purchase of BHS and then there was the purchase of Marylebone House.

Q1288 Richard Graham: Sorry, Marylebone House?

Stephen Bourne: Marylebone House, which was outside of the corporate group. We were told that there was an agreement to buy Marylebone House for £35 million and there was also an agreement, arranged by Mr Chappell, to sell Marylebone House for £45 million. That £10 million profit was always going to be available to RAL on day one to pay the advisers' fees.

Q1289 Jeremy Quin: It is a job to know where to start on Marylebone House, because there is a lot of stuff in it. There was ab initio—we heard from BHS in an earlier evidence session that the £35 million deposited in the Olswang account was terribly important for them to have the credibility of Dominic Chappell. What is your recollection as to where that £35 million came from?

Stephen Bourne: The £35 million came from ACE, which is a company owned by the Dellals.

Q1290 Jeremy Quin: And what was the purpose of their depositing that £35 million?

Stephen Bourne: The purpose of the £35 million was very specific. It was the consideration—or part of the consideration—for their purchase of Marylebone House once it had been acquired by RAL.

Q1291 Jeremy Quin: And as far as you're aware, BHS was aware that that was the genesis of that £35 million.

Stephen Bourne: I can't say that they were aware that it was from the Dellals, but the points of principle signed on 16 February are very specific that the £35 million was always in relation to the purchase of Marylebone House.

Q1292 Jeremy Quin: So the credibility of Dominic Chappell was based on the on-sale of a property post the acquisition of BHS.

Stephen Bourne: Certainly it was absolutely crystal clear that that £35 million was not related to funding the purchase of BHS. It was not money that was going to be injected into BHS upon its acquisition. There is no doubt about that.

Q1293 Jeremy Quin: Because Marylebone House was owned—is it Wilton Equity Ltd that is the parent company?

Stephen Bourne: I think that was the company, yes.

Q1294 Jeremy Quin: That was not owned by BHS but is directly owned by—

Stephen Bourne: Somewhere else in Sir Philip's empire.

Q1295 Jeremy Quin: Okay. It still appeared in the SPA on the sale, though, didn't it?

Stephen Bourne: No, I don't think it did, because there was a change in the last 48 hours in relation to Marylebone House. Sir Philip changed his mind, so in the end he decided not to sell Marylebone House to Mr Chappell and not to allow the on-sale of Marylebone House to ACE. He chose to sell it himself to another buyer and agreed that the £8.5 million that is in the funding schedule would be a payment to RAL in compensation for the lost profit that RAL would have made on that deal.

Q1296 Jeremy Quin: The SPA confusion was only because there is a redacted line in the SPA between "Management Accounts" and "Net Inter-Group Payable", so I was curious as to whether or not that was Marylebone.

Stephen Bourne: I'm pretty sure it's not in the SPA.

Q1297 Jeremy Quin: Thank you. But in terms of—that's curious. There was a parallel sale of Marylebone House, which RAL had nothing to do with, on that basis, because Marylebone House was actually sold by Sir Philip to another entity.

Stephen Bourne: It was a very late change, yes.

Q1298 Jeremy Quin: But there were proceeds from that that flowed into the cash statement of BHS on your acquisition—the £8.5 million.

Stephen Bourne: Yes, that cash statement actually shows not just BHS cash but cash that was going to RAL as well. That is why that £8.5 million is not in the SPA.

Q1299 Jeremy Quin: That is not what it says. “BHS opening cash position was projected at £69m.” It’s not your note—but thank you. There was a two-year lease on Marylebone House provided as part of that agreement, according to the documents I have seen, so there was consideration paid for Marylebone House and there was a two-year nil rent lease.

Stephen Bourne: Yes. My recollection is that certainly when the intention was for RAL to buy Marylebone House and sell it on to ACE, there would be a two-year rent-free period at that time.

Q1300 Jeremy Quin: So there will presumably have been an agreement between RAL and the acquirer of Marylebone House to ensure that that was put in place.

Stephen Bourne: I really don’t know what happened after completion. I wasn’t involved post-completion, so I don’t know when Marylebone House was sold, I don’t know who it was sold to, or what the transaction was.

Q1301 Jeremy Quin: But Marylebone House had been valued, one assumes, at in excess of £35 million, because that’s what had been put into the Olswang account, and it was subsequently sold—

Stephen Bourne: At the end of January, I saw an offer letter from ACE, saying they were willing to pay £45 million for it and that they would place £35 million—part of the consideration—in the Olswang client account, and that became a condition of the points of principle that was signed with Arcadia in mid-February—very specific.

Q1302 Jeremy Quin: So, an external party valued it at £45 million. It was sold; we don’t know how much it was sold for.

Stephen Bourne: No.

Q1303 Jeremy Quin: But the proceeds were presumably paid to part of Sir Philip Green’s broader group. But again, we don’t know when—

Stephen Bourne: I really don’t know what happened to—

Q1304 Jeremy Quin: But £8.5 million was provided gratis to RAL.

Stephen Bourne: It was included in that schedule that was produced at the completion meeting. I wasn't at the completion meeting; I saw that after the completion meeting. And my understanding is that that was effectively compensation for the late change of mind that would have generated a £10 million profit.

Q1305 Jeremy Quin: However one looks at it, this business wasn't really sold for £1, was it? It was sold for minus 10 million quid—that was part of the dowry that was being provided in order to get RAL to buy it.

Stephen Bourne: I'm not sure I'd express it like that. I mean, I'm not sure there was a "dowry", but it was certainly a payment to RAL that was there from mid-January to—

Q1306 Jeremy Quin: This was an asset that wasn't in the BHS group, that a third party acquired, and 8.5 million quid from that sale was given, or left in the BHS business, for RAL to pick up.

Stephen Bourne: Yes.

Q1307 Jeremy Quin: And it was a two-year rent-free period, which is worth something—

Stephen Bourne: To the BHS business, yes.

Q1308 Jeremy Quin: That was agreed at the same time.

Stephen Bourne: Absolutely.

Q1309 Jeremy Quin: And that £8.5 million—did that go to the RAL accounts or did it go to the BHS accounts?

Stephen Bourne: Again, I wasn't involved in anything after 11 March, so I don't know what actually happened—

Q1310 Jeremy Quin: Mr Parladorio, were you aware, because you were there after 11 March?

Aidan Treacy: Do you want me to comment? I could comment on that—

Q1311 Jeremy Quin: Please.

Aidan Treacy: Because the £8.5 million was never paid to Retail Acquisitions, which is why Retail Acquisitions is—Going back to the first week, if we may, and the two emails that Stephen mentioned, the intention was that that £8.5 million would come in to cover the fees that the Chairman asked me about. Those moneys never came in; the £8.5 million didn't come in. But later on, in June/July, an amount of £10 million that's been quoted in the media was received from Arcadia. That was paid direct to HSBC on behalf of BHS, creating further intra-company arrangements, and the accounting treatment of that was an additional £5 million of equity into BHS by Retail Acquisitions, £3.5 million reducing loans at that point in time and £1.5 million that was utilised by Retail Acquisitions.

Q1312 Jeremy Quin: Was that a sort of deferred agreement with Arcadia? It just—

Aidan Treacy: It was a framework agreement. The item on it, in terms of the loan, was—

Q1313 Jeremy Quin: Had that been agreed at the time of the sale? You've got experienced corporate financiers here. I'm just very curious that suddenly the £8.5 million, which I see on the Taveta board minute being provided as cash proceeds to processing the sale of Marylebone House, going to BHS on day one—it says here. Cash position. That wasn't, and it wasn't provided, but £10 million was provided some months later. How was that—? What were the legalities? Maybe Mark could tell us. What were the legalities behind that? What was the commitment?

Mark Tasker: To be perfectly honest, I don't know the details after 11 March. I wasn't involved on the board. I don't know enough.

Q1314 Jeremy Quin: But prior to 11 March, was this agreed, with Marylebone House for 8.5 million quid—? Was that in the agreement on the—? Was there an SPA? Was there a commitment made, or—?

Mark Tasker: I think Stephen has explained the commitments in relation to Marylebone House. Marylebone House was intended to be sold as a parallel transaction to Retail Acquisitions. Retail Acquisitions was going to onward-sell it. That didn't happen. My understanding is that Sir Philip Green said, "I've had a better offer, and—"

Q1315 Jeremy Quin: Better than £45 million?

Mark Tasker: "I'm going to sell it to whoever that was but I will ensure that you will receive compensation for my withdrawal of that proposal." I think that is where the £8.5 million was arrived at.

Q1316 Jeremy Quin: It's just curious, from my point of view, when I look at a note saying that the BHS cash and facilities on day one—11 March—is £94 million. However,

£16 million was there for future known liabilities, which you can discount. I want to go on to it, but we have already discussed North West House and there is £7 million less there than is on this statement. The £8.5 million from Marylebone House was not there either. The cash position of £94 million is dropping by the minute as we go through these evidence sessions.

May I just ask about North West House? We heard just now that that was acquired, so the money that had been put into the escrow account at Olswang by ACE was not devoted to the acquisition of Marylebone House. Instead, it was used to acquire North West House, as I understand it, for £32 million. On this schedule we have £32 million of cash but we heard in the previous session that £7 million, to which the Chair referred, went into a RAL account, so that was not available to the business. Aidan is nodding. Can I just have your confirmation that that is your understanding as well?

Aidan Treacy: I think that is what we have been getting at over the past few questions. The £7 million should not have gone to RAL. It was put there on day one. I believe that it was not drawn out for a week. It was not drawn out immediately because we were waiting for confirmation that the £8.5 million would come in. It was only when an email was sent by Arcadia to confirm that the £8.5 million would be in by Monday that arrangements were made to transfer the money out. That £8.5 million did not arrive, which created a problem that still exists today.

Jeremy Quin: You can understand my confusion, being a third party, in trying to go through all these documents and working out where the funds flow. I have been trying to do that and it is not easy. I now understand why it is not easy: most of these funds did not flow.

Frank Field: They did flow, but the wrong way.

Q1317 Jeremy Quin: You believed that you were going to receive an £8.5 million compensation payment because the Marylebone House deal was off the table at the last minute. You did not receive the £8.5 million that you had expected to receive. That £8.5 million was going to go into BHS, was it?

Aidan Treacy: The £8.5 million was going to go into Retail Acquisitions Ltd. That is the source of the problem.

Q1318 Jeremy Quin: We could ask why you were going to receive £8.5 million, but that is by the by. You were expecting to receive, on a separate parallel agreement with Sir Philip, £8.5 million. It was not part of the SPA; it was a separate parallel agreement that was not written down. That was your understanding. The £8.5 million did not arrive. Rather than £8.5 million coming from a separate parallel agreement of an acquisition of an asset that was not part of the BHS group, you received funds from the sale of an asset that was part of the BHS group, and where the funds had been intended to support BHS on an ongoing basis.

Aidan Treacy: That is correct.

Q1319 Jeremy Quin: That is correct, isn't it? Okay. So we have just lost another £7 million from this cash statement. I think I will leave it there.

Q1320 Richard Fuller: Who were you talking to about this £8.5 million?

Stephen Bourne: The £8.5 million came up in the last 36 hours.

Q1321 Richard Fuller: Who were you talking to?

Stephen Bourne: I saw it at completion. All the conversations around this would have been between Mr Chappell and Sir Philip Green.

Q1322 Richard Fuller: So the conversation was between Dominic Chappell and Sir Phillip Green.

Stephen Bourne: I believe so.

Q1323 Richard Fuller: I'm just curious. Jeremy asked the question. Why would somebody give you £8.5 million by selling a property that is not related to the company you are buying, and why would you get the money, not the company?

Stephen Bourne: It was in the initial terms that were agreed during January between Mr Chappell and Sir Philip Green. That is all I know about it. It was there from the beginning and it was in the points of principle.

Q1324 Richard Fuller: You're smart. You have 30 years of experience. Why would someone do that?

Stephen Bourne: The effect of it was effectively to fund RAL.

Q1325 Richard Fuller: So he was trying to fund the buyer.

Stephen Bourne: I don't know whether he was trying to find the buyer but the effect of it was to give a day one profit to RAL.

Q1326 Richard Fuller: Why would you do that?

Stephen Bourne: It's effectively assistance in the transaction.

Q1327 Richard Fuller: You wanted to get rid of the company so you funded the buyer to buy it off you.

Stephen Bourne: I don't know that. I don't know that that was the intent.

Q1328 Richard Fuller: That is the hypothesis, isn't it?

Stephen Bourne: It was certainly a profit to RAL, that was there on day one to cover fees and any other costs that RAL would have on the transaction. That was my understanding.

Q1329 Richard Fuller: And because it was a conversation between Dominic Chappell and Sir Philip Green personally—as my colleague Mr Quin has just said—the money didn't arrive and no one really cared; you didn't chase up on it. I mean, if I had lost eight and a half million quid, I would probably ask where it was. But none of you did, did you?

Stephen Bourne: The last time I spoke to Dominic Chappell was on 20 March. I have had no involvement or connection. I can't say anything—

Q1330 Richard Fuller: The deal had already closed, hadn't it? And the money wasn't there? So you were there when the money didn't arrive?

Stephen Bourne: I was—

Q1331 Richard Fuller: And you didn't ask any questions.

Stephen Bourne: I didn't know. I wasn't involved in any bank accounts. I had no personal involvement in any accounting or books of RAL.

Q1332 Richard Fuller: You were a director of RAL.

Stephen Bourne: Until 11 March, yes.

Q1333 Richard Fuller: And the deal closed when?

Stephen Bourne: 11 March.

Q1334 Richard Fuller: So, Mr Treacy, maybe you would know?

Aidan Treacy: I only joined in November 2015, but by that stage—

Q1335 Richard Fuller: Is there anyone here who might have been on board at the time that this £8.5 million may or may not have arrived?

Eddie Parladorio: *indicated assent.*

Q1336 Richard Fuller: Mr Parladorio.

Eddie Parladorio: The position is, by rights, as established. The £8.5 million was supposed to come in on the 11 March. It doesn't come in. An assurance was given, I think by email, shortly after, that it would. The position—

Q1337 Richard Fuller: Who was that email from?

Eddie Parladorio: I'm not sure but I can dig it out and send it, if that would help.

Q1338 Richard Fuller: It would be nice if you could.

Eddie Parladorio: As I understand it, the position then changed. Mr Chappell was speaking with Sir Philip, as he did. The position then changed that the £8.5 million was not coming in, but there was a strong understanding that an arrangement would be made to ensure that the effect of that would happen.

Richard Fuller: So, sort of on his word.

Eddie Parladorio: In the end, it did, but it was a couple of months later.

Q1339 Richard Fuller: Essentially, when the money didn't arrive, it was a personal conversation and a personal guarantee that gave you as a director of the company the assurance that the £8.5 million that you were owed was going to arrive.

Eddie Parladorio: I certainly understood from Mr Chappell that it would be fixed.

Q1340 Richard Fuller: That was sufficient for you?

Eddie Parladorio: In the circumstances we were in, yes.

Q1341 Richard Fuller: Let me just go back. I want to follow up on some issues on the financing for the acquisition, Mr Bourne. We had discussions yesterday with Farallon Capital, pursuing some observations that had come out in a dialogue with Mr Budge, the chief financial officer of Arcadia Group. Mr Budge had said that Goldman Sachs's "observations were that they"—Goldman Sachs—"had ability proof that they"—which

means you—“had lines of funding for £120 million through Farallon. That was very important.”

Yesterday, the gentleman from Farallon said that there was “no committed financing available to anybody,” and yet, in an email from you on 6 March to Paul Budge, you wrote, “Funding of £120 million is being provided by Farallon and secured against the property portfolio.” Can you just help clarify? Was the money there or was it not there?

Stephen Bourne: Yes. That email was copied in to somebody else on the RAL team, who was dealing with Farallon.

Q1342 Richard Fuller: Michael Morris.

Stephen Bourne: Michael Morris. He was working with Mr Chappell throughout February and March with Farallon. The latest information that we were getting at that stage was that Farallon were going to provide the funding. The purpose of my copying in Michael Morris was to say, “My understanding is that it is £120 million from Farallon. I’ve copied it to Mike”—I can’t remember exactly what the email says— “He’s involved, he’ll let you know what the latest situation is.” That was the rationale behind that email.

I had seen the first Farallon letter, that had been produced in January when the funding was £85 million. I had commented on that. I had had a meeting, perhaps even two, with Farallon at that stage. The funding was of no use whatsoever in that form. It was effectively a bridging loan that was only drawable between the exchange of contracts on properties and the completion of the sale, so it was absolutely no use. I had pointed that out and from then onwards Mr Chappell and Mr Morris dealt with Farallon. In early February I saw a Farallon draft facility letter that did not really change very much from the beginning of February. That was for £120 million. It had conditions attached to it about due diligence, about the Pensions Regulator, about RAL picking up the fees, and, importantly, it also had a condition that RAL would deliver £35 million of equity capital in order for that £120 million to be drawn.

Q1343 Chair: Where does that come from?

Stephen Bourne: It was Mr Chappell’s role to find the capital on this transaction, so he was having constant conversations with a whole series of people to find that money.

Q1344 Richard Fuller: Just to understand—sorry to interrupt—that £35 million is the same amount as the money that was for the unrelated Marylebone House purchase.

Stephen Bourne: It is the same amount.

Richard Fuller: It was just by chance the same amount.

Stephen Bourne: But I don't see how that could have been used. The £35 million that was placed on deposit was to give to Sir Philip Green for the purchase of Marylebone House. So I don't see how that £35 million could have been deemed to be the equity contribution in any way to this transaction.

Q1345 Jeremy Quin: It was critical for establishing his credibility with the vendor.

Stephen Bourne: That's not my evidence. I don't see how it could be used to establish credibility when it is £35 million in relation to a property transaction on a property that was worth £45 million. That is a lot of money to find.

Richard Fuller: But you would imagine—maybe you should finish.

Stephen Bourne: I saw the letters from Farallon. No one reading those letters from Farallon would believe that finance was available from Farallon. There simply wasn't. The conditions could not be met and the £35 million of equity capital never appeared. So until a very late stage in this transaction I could not see how it was going to go ahead.

Q1346 Richard Fuller: I'm going to come back to your email. In your email on 6 March you raised the term sheet to Paul Budge. It says, "Funding of £120 million is being provided by Farallon secured against property." That sounds like there is money.

Stephen Bourne: That was passing him on to Mike to find out what the situation was.

Q1347 Richard Fuller: But he doesn't know who Michael is, does he? Mr Budge is a serious chief finance director of a multi-billion-pound company. You have 30 years' experience heading up a corporate finance advisory firm. It sounds as though Mr Budge is going to take your word as your bond, not some guy who is copied in with an AOL.com email address.

Stephen Bourne: I think that really is putting too much emphasis on the email. It really is.

Q1348 Richard Fuller: But I'm not putting the emphasis; Mr Budge is putting the emphasis. He said, "the observations were that they had ability proof that they had lines of funding for £120 million through Farallon. That was very important." I don't think you can get off the hook here, Mr Bourne. When you passed that email on 6 March saying "is being provided", it was your email, your words, and it was, it is fair to say, saying something that you knew at that time not to be the case.

Stephen Bourne: No, I don't think that's a fair summary of the situation. I am not sure of the context of the email. I cannot remember the email exactly, but I know that it was in response to a note from Paul Budge saying that there had been a meeting with the pension trustees the day before. I think that was why he said it had been raised by the pension trustees

or the regulator where the finance was coming from. All along in every conversation that we were having the belief was, coming from Mr Chappell, dealt with by all the advisers, that Farallon were the only mentioned source of finance. They were the only people regularly that were talked about at that stage. There was an ongoing discussion with Farallon about picking up their fees; it was a live discussion, but it looked to me like Mr Chappell would not be able to get that finance over the line. I wasn't close enough to it. I copied in Mr Morris and I hope I said in that email, "I'm copying in Mr Morris because he is dealing with this." Did I say that?

Q1349 Richard Fuller: You certainly said that you copied him in.

Stephen Bourne: I'm pretty sure that the purpose of the email was simply to confirm what was the understanding of everyone. The hope was that there would be £120 million from Farallon. I'm not doing the work. Mike is close to it. I copied him in so that he could talk to him about it and find out the latest state of play.

Q1350 Richard Fuller: I don't think the word "is" conveys hope. "May be providing" is what I would use if I was conveying something that I did not have a full grip on, but let's just put that to one side. Is it your understanding, whether or not there was any follow-up conversation with Mr Budge to either yourself or Mr Morris to confirm that funding was available?

Stephen Bourne: I don't know.

Q1351 Chair: Mr Bourne, can I just clarify something in my own head? When he came before us, Mr Budge said that Dominic Chappell was a credible buyer because £35 million was deposited in an escrow account, so he could provide the funds; but, from what you have been saying in response to both Mr Fuller and Mr Quin, it seems to me that that £35 million was provided by Sir Philip Green. Is that fair?

Stephen Bourne: Well, the £35 million was provided by ACE—the Dellals—as a deposit on a property that they had been told Mr Chappell would buy and sell to them.

Q1352 Frank Field: There was this money coming from different directions that was helping to establish Mr Chappell's credibility, which was important for Sir Philip because he wanted to sell to him. So we have Sir Philip moving money around to give credibility to a guy who didn't have any money, so that he could justify the sale of BHS.

Stephen Bourne: I don't think any of the money was moved around by Sir Philip. He made available to Mr Chappell a property that he was then able to sell on to a contact that he had at a profit. That is the fact. That was the intention.

Q1353 Frank Field: But by doing that, Sir Philip established Mr Chappell's credibility in Sir Philip's eyes so that Sir Philip could say, "I'm selling to a credible guy." Isn't that what you are telling us?

Stephen Bourne: I'm just telling you the facts of the transactions.

Q1354 Chair: Again, to clarify in my own head, who owns Marylebone House now?

Aidan Treacy: I really don't know.

Mark Tasker: I'm afraid I don't know who the buyer is. I don't even know when it was sold, actually.

Q1355 Craig Mackinlay: I just want to put on the record that I have never met Mr Parladorio before but there is a very vague and abstract link with an associate of mine.

A couple of things have come out. Would the £8.5 million that was due to come to RAL have been treated as a distributable reserve? Was it there to pay for some of the due diligence fees that were associated with the deal? In concept, was that what it was for? Mr Parladorio, other people came and went but I think you have been the commonality throughout this.

Eddie Parladorio: Sure. The £8.5 million was, at that stage, designed to pay the professional fees that had been incurred on the acquisition, yes.

Q1356 Craig Mackinlay: So that would have been Grant Thornton, Olswang and whoever else.

Eddie Parladorio: Yes.

Q1357 Craig Mackinlay: Perhaps it would be appropriate to have some Companies Act thoughts from Mr Bourne. Would that have been a distributable reserve? I don't suppose the fees were £8.5 million—there would have been something left.

Stephen Bourne: It would almost certainly have been a distributable reserve. If it was a payment to RAL in respect of compensation for something that RAL had surrendered, then yes, it would have been completely distributable.

Q1358 Craig Mackinlay: We have not identified who the buyer of Marylebone House was. I supposed we could have done a search at the Land Registry, but nobody has any idea who the ultimate buyer was.

Mark Tasker: You're talking about the buyer of Marylebone House from Wilton.

Craig Mackinlay: Yes.

Mark Tasker: I'm afraid not, no.

Q1359 Craig Mackinlay: When you were putting together the RAL team, it obviously came from Chappell first, but who was the first one in? Was that you, Mr Parladorio?

Eddie Parladorio: That was me, yes.

Q1360 Craig Mackinlay: And from there, with your friends and contacts from years of experience, you built the others around you. Is that a fair summary?

Eddie Parladorio: That's fair, yes.

Craig Mackinlay: So you can confirm that.

Eddie Parladorio: Yes.

Craig Mackinlay: That's all for now. Thank you.

Q1361 Frank Field: You all seemed to jump ship around the same time. Might I start with you, Stephen? Why did you resign?

Stephen Bourne: The day before completion, when financing started to come together, it was a very frantic period. Mr Tasker told me that he was not staying on board, and he has his own reasons for that. Mr Chappell sent me a proposed board for RAL going forward. It had on it a list of names, half of whom I didn't know and some of whom I did know and didn't think were appropriate for the board. I had joined the board of a shell company with people who I knew and respected. I had been working with excellent advisers on a transaction, and now I was being asked to stay on the board with a bunch of people I didn't know. It was a very serious board and it was a very serious situation going forward in terms of a large business that you are responsible for. So I said that I would come off the board at completion and reconsider my position when I got to know these people and got to know Mr Chappell better.

Q1362 Frank Field: Stephen, who were the people who worried you on that list?

Stephen Bourne: It wasn't so much individuals who worried me; as I say, I didn't know them. First, I didn't know them. Secondly, there were two or three names that were associates and friends of Mr Chappell, and I didn't think it was appropriate to have a bunch of people who were friends and associates rather than independent experts in key areas that you need on a board like that.

Q1363 Frank Field: Who were the two or three? What were their names?

Stephen Bourne: The 10th was the first time I saw the name of the new proposed chairman, Mr Keith Smith. It was proposed—actually, I think it was done just before completion—that Lennart Henningson join the board. He had not played an active role in the transaction; I could not see what value Lennart would provide as a director. There was someone from Cornhill Capital proposed to go on the board, whose name just came up out of the blue. I think there were one or two people who had appeared during the last few weeks of the transactions who were experienced project managers, but their experience, in my view, did not justify a position on the board.

Q1364 Frank Field: Aidan, when did you leave?

Aidan Treacy: I left on 24 May. I joined in November because of looking to get involved in the BHS turnaround. That is the sort of work I do. That role finished at the end of April. As we established earlier, Retail Acquisitions is a very small business as an entity, and for the remaining few weeks I responded to section 72 inquiries and tidied up the affairs of Retail Acquisitions. I believed it was time to then leave, move on and hopefully get involved in another restructuring project.

Q1365 Frank Field: Eddie?

Eddie Parladorio: I was part of the team leading up to the acquisition. There was no guarantee of staying on after that, but as with Mark and—

Q1366 Frank Field: When you joined, did you expect to stay on?

Eddie Parladorio: I was just going to say that at the point of acquisition, I had a discussion with Mr Chappell. From my point of view, I was not sure if I wanted to carry on. In the end, he invited me to do so, and I took the view that I would carry on. I thought it was a very interesting project that would certainly be very fulfilling if a turnaround could be achieved. I effectively stepped aside from my law firm and other interests, and this became pretty much a full-time role. I carried on until the company went into administration. I resigned on 24 May, as I wanted then to return to my law firm.

Q1367 Frank Field: Mark?

Mark Tasker: I resigned on the date of acquisition—on 11 March 2015. I saw my role as being part of the acquisition advisory board. That role had come to an end. I think Mr Chappell would have liked it to continue, but my role was at an end. I had significantly increased management responsibilities at my law firm and simply would not have had the time to commit to it.

Q1368 Frank Field: We heard from the finance director that within two weeks, he thought, “We’ve got a guy here who’s got real problems.” Did any of you think there were any problems with Mr Chappell that worried you, when someone thought that after two weeks?

Stephen Bourne: Not really. This was a transaction that I saw him working very hard to achieve. I think it is absolutely fair to say that we thought it was a friendly transaction. The deal was done when I first met him. It died before December; he managed to get it back on track through personal contact with Sir Philip. He took on himself finding the finance, and I think there was a succession of—hindsight is a great thing—very optimistic feedback.

Q1369 Frank Field: But at no time did you think, as others did, “This is a serious fantasist”?

Stephen Bourne: He was running around trying to find the money, negotiating constantly with Sir Philip Green, while we were trying to work on more practical aspects of the transaction with Grant Thornton and with Olswang. There was a tremendous amount going on. Really there was nothing improper that happened during that period.

Q1370 Frank Field: A lot of this was with Sir Philip—his activities.

Stephen Bourne: Whether it is an impression or whether it is the reality, there was a lot of contact with Sir Philip. Yes, I would say that.

Chair: Jeremy?

Q1371 Jeremy Quin: Very briefly, Chair, I promise—a question to Mr Bourne and Mr Tasker. Clearly the pension was a huge issue for anyone acquiring this business. You acquire a business for £1 and you have up to £571 million of pension liabilities.

Stephen Bourne: Yes.

Q1372 Jeremy Quin: How much thought went into a credible plan for resolving those issues and what was that plan?

Stephen Bourne: First, it received a huge amount of attention. We had two teams of people from Olswang and Grant Thornton working on pensions as soon as we became aware that the pension fund was actually coming with the deal. When we were initially introduced to the deal, it was going to be taken care of.

Q1373 Jeremy Quin: When was that?

Stephen Bourne: It would have been round about mid-January when Mr Chappell revived the deal. That was one of the key changes: that suddenly it went from “Don’t worry about the pension fund; it’s going to be taken care of,” to “Well, we’ll make a contribution to any solution, we’ll work together on any solution,” and it became part of the conversation from then forward that Arcadia would make a contribution, the contribution would come out of BHS going forward and the conversations that started around Project Thor would carry on after the change in ownership. We had had a full explanation of Project Thor—we had a debrief from Deloitte on that. We had a report on Project Thor, which Grant Thornton and Olswang had looked at. They had looked at the size of the deficit, which was enormous.

Q1374 Jeremy Quin: What was critical to Project Thor was a capital injection into the pension fund, and it was coming from the BHS group. As part of the due diligence, did you set a minimum amount of cash that you would expect to come from Arcadia in order to settle the pension liability? Was that on the cards?

Stephen Bourne: The figure of £50 million was around Project Thor when it was put on the shelf.

Jeremy Quin: That did not even scratch the surface.

Stephen Bourne: On 6 March, we got a report back—Deloitte to Grant Thornton to us—on that meeting with the pension trustees and the regulators, where we were told there was broad agreement on a deal around the £50 million level, which involved £15 million from Arcadia, £15 million from BHS and a £20 million charge over the assets of BHS. We received that feedback on the 6th. It would have been nice to talk directly—

Q1375 Jeremy Quin: Who did you receive that feedback from?

Stephen Bourne: That is in an email from Grant Thornton, reporting a conversation that they had with Deloitte after that meeting.

Q1376 Jeremy Quin: You say “agreed”. Was that agreed with the Pensions Regulator?

Stephen Bourne: I think the words used were “broadly agreed”—“We are broadly agreed on a deal around £50 million with that structure.” That was the last information we had on the likelihood of being able to structure and do a deal going forward.

Q1377 Jeremy Quin: To be clear, a £20 million charge secured on a BHS property post-acquisition.

Stephen Bourne: Yes.

Jeremy Quin: And £15 million in cash from BHS.

Stephen Bourne: Yes.

Jeremy Quin: I look back on my cash flow, which yet again has taken another major hit, but thank you. I am curious that that was the information you received on 6 March.

Q1378 Frank Field: Stephen, can I just ask about the pension? You have told us quite a bit of information about the building up of Mr Chappell as a credible person, with various loans moving around but mainly done by Sir Philip. He is then established in the eyes of the community as a serious guy with money, but while that is going on, you are thinking there is going to be a deal without any pension liability. Mr Chappell is then established as a serious player, thanks to moneys and property deals that Sir Philip has allowed Mr Chappell to acquire a status. Then we find that that is not the deal any more. This credible person has come back with a pension liability. So we have a buyer who has been a creation in people's eyes as a serious player thanks to Sir Philip's help, and he is a buyer who is taking the company without the £571 million pension liability; then he comes and tells you, "Sorry, lads. That is a different deal. I am now credible, thanks to the help I have had. The deal I am negotiating is now a deal in which I have got this huge pension liability." Would that be a fair representation?

Stephen Bourne: I think the timing is out on some of those events. The Marylebone House transaction came up only in January, whereas the idea of acquiring it with no pension liability was pre-Christmas, so the two things are unrelated. The idea of Mr Chappell being built up as a credible buyer—it only mattered to Sir Philip; nobody else on the other side would have mattered. I can't see why he would try to build up Mr Chappell's credibility for himself.

Q1379 Frank Field: Except he can say publicly, "We know this is a serious guy I'm selling to. I didn't want to sell, but now I'm convinced he's serious. He is serious because I've helped him acquire this actual status."

Stephen Bourne: I don't know. At the end of the day, Mr Chappell would either produce the money to do the deal or he would not. That, at the end of the day, was the only important thing. Would there be sufficient finance to fund the turnaround plan and to prevent an insolvency of BHS? That was the only thing that mattered.

Q1380 Richard Graham: Chairman, we do not have time to ask Mr Parladorio for more information, but clearly he is the man who has created the RAL board by first introducing Mr Tasker who in turn introduced Mr Bourne and so on. Mr Bourne, you outlined the relationship between Mr Chappell and Philip Green. I think your words were that Mr Chappell said he had agreed a deal with Philip Green. You then explained the three phases of how the original deal—debt-free and pension-free—had collapsed. When the second deal came back, I think you said earlier, you couldn't see how the transaction could go ahead. Why was that? What changed in order for the transaction to go ahead?

Stephen Bourne: During March everyone was referring to the Farallon £120 million. It was in the points of principle, so it was known in early February on both sides that the hope was that that £120 million would be there. For the £120 million to be there, Mr Chappell had to find £35 million of equity. I saw no sign, right up to the last minute, even though he was frantically looking for it, that that £35 million of equity was likely to appear. Three days, four days, two days out, Mr Tasker and I talked about it frequently. There was no finance to do the deal.

Chair: Gentlemen, thank you very much for your time. Can I just say that we would like to reflect on what you have said today? We are certainly going to write letters to several of you and we may wish to bring you back, if that is okay. We thank you for your time.

The next session may last a long time, so I will suspend the sitting for several minutes before we start.

Sitting suspended.

Examination of Witness

Witness: Dominic Chappell, Chief Executive, Retail Acquisitions Ltd, gave evidence.

Q1381 Chair: Mr Chappell, thank you for attending. May I start by asking, what was your connection with Sir Philip Green?

Dominic Chappell: I was introduced to the BHS deal by a chap called Paul Sutton back in early 2014.

Q1382 Chair: Did you know Sir Philip Green before then?

Dominic Chappell: No.

Q1383 Chair: And Paul Sutton was the person who put the idea in your head.

Dominic Chappell: That's correct.

Q1384 Chair: Was it Paul Sutton's projects that you were brought on board to help with, or did Paul Sutton say to you, "This is a good deal for you, Dominic; maybe you should lead this"?

Dominic Chappell: No, not at all. I first came across Paul Sutton in 2007, when I was doing a large property development in the Isle of Wight called Island Harbour. Paul Sutton turned up on the scene; he wanted to buy one house, then he wanted to buy three houses, then he wanted to buy the marina, but nothing really came of it, and we didn't see much of him—he vanished into the ether.

I bumped into him in December 2013, in Mayfair. He invited me to coffee; he had a very nice house at the back of Mayfair, with a new Rolls-Royce, yada yada yada. He reported that he had just finished the Snoozebox flotation and, on the face of it, he seemed a very credible guy, so we got talking and he asked me to write a business plan for an international version of Snoozebox, which I did over the Christmas period. I was supposed to get paid for that work, but didn't—Paul and I had some fairly blunt conversations regarding that side.

Paul then asked me to get involved in a project called Project Albion—I didn't know it was BHS at the time, although I knew it was a retailer. That was in late January. I went to Eddie Parladorio's office at that stage, where there was some data that he had acquired during the following year, and we started the process. During that three months, we had a very close look at the data that he had acquired, which was quite extensive, from BHS. I had professional teams come in to look at that and start developing a business concept and business plan for BHS, although the data was dated June 2013. We then—

Q1385 Chair: We are being interrupted by the Division bell. For my own purposes, can you just speak up a bit? That would be very helpful. Can I also probe you on something? You said that Paul Sutton had obtained a lot of data, when it comes to BHS. Could you just give us a flavour of what that data actually was?

Dominic Chappell: Yes. It was a full property list. It was an extensive cashflow positioning of BHS—stock levels. It was a fairly comprehensive data bank of information on BHS.

Q1386 Chair: Where did he get that from?

Dominic Chappell: I don't know.

Q1387 Chair: You didn't ask?

Dominic Chappell: No, I didn't ask. I was working for him at the time, and I just presumed it was another job that he wanted to get involved with.

Q1388 Chair: Okay. Could you tell us a bit about Project Albion? How worked up was that? What value did you add? What did you change or amend with regard to Project Albion?

Dominic Chappell: Project Albion was the raw data of BHS. There was some work that had been done on it, but not much. No property work had been done on it and no looking at the proper cashflows had been done on it, so I brought in a number of different people and for two months we raked through the data to see if there was a possibility of turning around the company that we had the information for.

Q1389 Chair: And at this stage, the prospect of buying BHS was almost like a joint venture between yourself and Paul Sutton?

Dominic Chappell: No, not at all. It was Paul Sutton's deal. He had the relationship with Philip. I had never met Philip or anybody from BHS at that time.

Q1390 Chair: When did you meet Sir Philip Green?

Dominic Chappell: I met Philip for the first time in January—I think it was either early January 2015 or late December 2014.

Q1391 Chair: What was the nature of your relationship with Philip Green and how did that progress over this whole process?

Dominic Chappell: What happened effectively was that we worked with Paul Sutton closely—myself and my team. There were five people in my team, and we racked up considerable time, effort and cost in getting a proposal to be presented to Arcadia, which was done in May of that year. Something wasn't right. We didn't believe the credibility of Paul. I hadn't checked his history. I forced a meeting with Paul Budge, and Paul Sutton came along. We all turned up at Arcadia. Paul Budge came down to the reception of Arcadia and informed us that Paul Sutton was not welcome in the office, that he had no position to be talking about a deal, that we were to return all the data that we had acquired, and please don't bother him again. As far as we were concerned, the deal was effectively dead then.

Q1392 Chair: That's quite extraordinary behaviour, isn't it? Did you ask what happened?

Dominic Chappell: Oh yes, I certainly did. We believed that Paul Sutton was hoodwinking a lot of people that he was a big-time property player and that he had a very close relationship with Philip Green. He mentioned on a number of occasions that he knew Philip for decades, that he assisted Philip getting to Monaco and that his children went to Paul's school in Monaco. It all turned out to be complete nonsense.

Q1393 Chair: What did Philip Green say with regard to this? When you were discussing matters in the early stage of your dialogue, did he say, "Paul Sutton is a very close friend of mine," or, "a good business associate"?

Dominic Chappell: Not at all.

Q1394 Chair: What was the nature of the relationship between Paul Sutton and Philip Green?

Dominic Chappell: Very frosty at that stage.

Q1395 Chair: Even at the early stage?

Dominic Chappell: Even at the early stage. Philip Green had met Paul Sutton, I believe, only once or twice. End of.

Q1396 Frank Field: Can I just probe you a little more about your relationship with Sir Philip? So you met him for the first time in December 2014 or January 2015.

Dominic Chappell: Yes.

Q1397 Frank Field: Since that period of time, how many times have you spoken to him and how many times have you met him?

Dominic Chappell: Goodness. A lot. During the first year of BHS, we were in contact every other day or every third day. I would see Philip quite regularly to discuss the business. Yes, we had a good working relationship.

Q1398 Frank Field: At the end of it, wasn't it he who decided who would be the administrators for the business?

Dominic Chappell: Yes, he was.

Q1399 Frank Field: So although he was removed from it, he managed to close the business.

Dominic Chappell: He did, yes.

Q1400 Frank Field: And he chose Duff & Phelps.

Dominic Chappell: Correct.

Q1401 Frank Field: Do you know why he might have chosen them?

Dominic Chappell: Yes. They are a company he has worked with a lot before. He has a very close relationship to them, and Neville Kahn of Deloitte recommended that they were used.

Q1402 Frank Field: Do you think it was proper for him to refer your company, as it then was, to the administrators?

Dominic Chappell: No, I don't. I think our company was saveable. If Philip had assisted us, we could have saved BHS. We were in the throes of beginning the turnaround proper after a very successful property CVA, and we were moving forward.

Q1403 Frank Field: Why do you think the administrator paid any attention to him? What legal status did he have to make that move?

Dominic Chappell: Philip had a fixed or floating charge over the business as part of a floating debt that was left on acquisition.

Q1404 Frank Field: So that was a sword of Damocles over you all the time.

Dominic Chappell: It was a continuous stick that we were beaten with, and that was designed purely for Philip to be able to negotiate his way through the pension minefield that we ended up in.

Q1405 Frank Field: So it turned nasty. Over a long period of time?

Dominic Chappell: No, the relationship certainly broke down after Darren Topp took it upon himself to start trying to wriggle his way into the ownership structure of the business in the early part of this year. The turnaround wasn't going fast enough, and we had a very bad trading period. Darren and his management team were very much off forecast on a continuous basis. We had to accelerate a CVA, which we weren't intending to do until around May-June time, and we had to accelerate funding into the business to save the business.

Q1406 Frank Field: I have looked at Duff & Phelps's record, and the fee they choose as possible recipients of sales, and so on. Are you worried that they are going to break up what was your business and get the very best prices for you?

Dominic Chappell: Yes, terrified.

Q1407 Frank Field: You have no worries about them at all?

Dominic Chappell: No, I am deeply concerned that they are heavily conflicted. They are, as Philip refers to them, his ponies, and they do exactly what Philip tells them to do.

Q1408 Frank Field: Did Philip appoint the liquidators, or did somebody else do that?

Dominic Chappell: I don't believe that the liquidators have been appointed yet. I believe it will be down to the creditors' meeting in a couple of weeks' time to appoint the liquidators.

Q1409 Frank Field: We have names for them, that's all.

Dominic Chappell: Sorry. Are you talking about Hilco being brought into break up? Yes, Hilco are again very much part of Philip's team. He has worked with them a lot in the past, and he joint funds them.

Frank Field: That is really helpful. Thank you, Dominic.

Q1410 Chair: Can I just take you back to the early part of the process, Mr Chappell, and what your initial thoughts were even before you'd met Sir Philip Green? Do you think he is a successful businessman?

Dominic Chappell: He has been very successful at raising large amounts of money out of companies by taking huge dividends out of them, yes.

Q1411 Frank Field: Which is different from being a really good retailer, isn't it?

Dominic Chappell: You could say that.

Q1412 Frank Field: You can make a lot of money, but it doesn't mean to say that you are a good retailer.

Dominic Chappell: You just need to look at the track history of BHS over the last eight years.

Q1413 Chair: Did he ever say to you the reasons why he couldn't turn around BHS?

Dominic Chappell: There were a number of reasons. The leases were upwards only leases that were designed for when Philip first took over the business on a "sale and leaseback" type deal. They were ratcheting up continually. He didn't feel that he could put the business through a process to sort out the landlords. His expression was, "No one's going to do a deal with me while I sit on the back of a yacht." He felt that he couldn't save BHS because of his status in the Arcadia Group. It was an Arcadia Group company, and no viable CVA would go through because the landlords would hold him hostage.

Q1414 Chair: What skills, experience and resources were you bringing to this deal?

Dominic Chappell: I brought in a property team, Vail Williams, who were advising us. Mark Sherwood, a senior partner at Vail Williams, is a close friend and a highly respected property expert. I brought in Mike Morris, who is a corporate financier. Mike has been successful in a number of very, very large transactions, some of which I have worked with. I brought in Lennart Henningson. Len and I worked together on the Ford-Volvo takeover, the Jaguar-Ford deal, the pilot fish Ford deal, the Volvo deal. We have done a number of deals together: Excellanz, BaccaBank, WestLB and Slenskabank. I brought in Eddie Parladorio to build the legal/compliance side of the team, and we had a significant team behind us.

Q1415 Chair: What I am really trying to get at is your own personal skills, experience and financial capability. What could you bring to BHS to turn it around that Philip Green couldn't?

Dominic Chappell: A new pair of eyes on the business, and a very strong turnaround team focusing on the bricks and mortar of the business, how the business was put together and completely deconstructing and restructuring the business going forward.

Q1416 Jeremy Quin: Just to understand a bit more about the deal and how you got there, if I may: you initially thought you would be acquiring the business without the pension scheme—that that would be taken care of?

Dominic Chappell: The chronological order, effectively, is that the Sutton bid fell over. I had spent a lot of time, effort and money—I was in for about £500,000 of due diligence fees at that time. We had considerable data that we were using to formulate our bid. I rang Paul Budge at the end of August and said, “Paul, we really can put a credible team together on this. We’d like to come back and speak to Philip and try to get a deal structure in place. What have we got to do?” At that stage, Paul said he would speak to Philip and come back to me. He came back a week later to say, “We have appointed Goldman Sachs, who have some criteria you have to fulfil. You need to produce your team and show who they are. You have got to produce funding for the start of the property transaction, and we would prefer you to be advised by a merchant bank.”

So, we appointed RiverRock, who you met yesterday, which went and saw the normal candidates for property leveraging—Longbow, Fortress and so on; they had some strong letters of interest. The big issue we had was that we weren’t allowed in the data room or the due diligence room of BHS until such time as we proved that we had the ability to raise capital, the ability to do a property sale—initially to fund the business—and that we had a credible team. During October, November and December we put that together. I met with Anthony Gutman, two or three times. My team met with him two or three times. Farallon met with him and so did RiverRock. Eventually, Anthony rang me and said, “Listen, I’m happy that you’ve got a strong enough position now that we can introduce you to Philip.”

I went to see Philip and we sat down at Marylebone House. We had a number of discussions about the deal structure, and the original plan was that it would come debt-free, pension-free, and with the normalised running capital within the business. We then looked back at that deal. Philip rang about a week later and said, “I’m having issues with the pension side. We need to bring in your pension people and we need to get that going.” We brought in Olswang and Grant Thornton.

Q1417 Jeremy Quin: Let me pause you there for a minute. You appointed advisors and they were seeing providers of property finance on the basis that you would be buying this debt-free and pension-free, and that went on from August through to the meeting you had a week after your meeting with Sir Philip Green. What was the basis for you assuming you would be buying this debt-free and pension-free?

Dominic Chappell: That was the deal structure we had agreed with Paul Budge and Philip.

Q1418 Jeremy Quin: So you had had that discussion with Paul Budge at the outset?

Dominic Chappell: Yes.

Q1419 Jeremy Quin: What was the date of that?

Dominic Chappell: I guess that deal structure was offered to them at the beginning of December. It was always understood in the Sutton days that it would come debt-free and pension-free, and we were just piggybacking on historic deal structures that were agreed.

Q1420 Jeremy Quin: So it had been understood previously?

Dominic Chappell: Yes, it had.

Q1421 Jeremy Quin: That is the basis you had then worked on, and that is the deal that you presented in December?

Dominic Chappell: Yes.

Q1422 Jeremy Quin: Then you were disabused of that in January?

Dominic Chappell: Correct.

Q1423 Chair: If I may interrupt for a moment—what role did Goldman Sachs play in all of this? You said you met with Anthony Gutman two or three times.

Dominic Chappell: We were told Goldman Sachs was effectively the gatekeeper. They were the people who were going to do the corporate due diligence on our bid to make sure we were a credible team, and that is what it did.

Q1424 Chair: You had to convince Goldman Sachs?

Dominic Chappell: We had to convince Goldman Sachs. I met with Goldman Sachs two or three times. RiverRock did. Farallon did. A number of our team had spoken to them. I believe Grant Thornton had spoken to them. That was our team.

Q1425 Jeremy Quin: Would you not have thought that a classic bait and switch? You get drawn into an acquisition, appoint advisers and do the work on the acquisition on the basis that the pension fund would be removed. It was then landed on you, and that was £571 million. What were your thoughts?

Dominic Chappell: At the time, we were going to withdraw from the deal. It was only when Philip allowed us access to Chris Martin and we discussed it with the pension specialists at Deloitte. They said there was a plan of around £50 million to put it into a process. That plan had been tentatively agreed by the regulator, and that was what we should work on. That is when Philip had this theoretical £40 million loan that he kept against the company, which he was then going to cash and fill in behind, and then Arcadia was going to produce a £5 million a year contribution towards a pension top-up.

Q1426 Jeremy Quin: Can we just slow down a minute? So, Dominic, you heard from Deloitte that there was a £50 million plan, and you were informed that it had been tentatively agreed with the regulator.

Dominic Chappell: Yes. The plan had changed a bit because there had been a revaluation, and their estimates were anywhere between £50 million and £75 million, as a maximum level, that we would have to find.

Q1427 Jeremy Quin: That was Deloitte's view.

Dominic Chappell: Deloitte's.

Q1428 Jeremy Quin: And Deloitte believed that that had been tentatively agreed with the regulator.

Dominic Chappell: Correct, and they confirmed that by email, I believe, to either Mark Tasker or Stephen Bourne.

Q1429 Jeremy Quin: We heard about that in the last evidence session. The gentleman in the last evidence session believed that they got that on 6 March, prior to the agreement on 11 March.

Dominic Chappell: Yes.

Q1430 Jeremy Quin: That involved £50 million of cash going from BHS into the pension fund.

Dominic Chappell: Correct, yes.

Q1431 Jeremy Quin: And security being granted over a BHS property of £20 million, as well.

Dominic Chappell: Correct.

Q1432 Jeremy Quin: In order to get to the £50 million.

Dominic Chappell: Exactly.

Q1433 Jeremy Quin: That is helpful. I am obviously curious as to the amount of cash in the business when you acquired it. You were quite damning about Darren Topp and the management team and the underperformance of the business.

Dominic Chappell: Yes.

Q1434 Jeremy Quin: You will recognise, surely, that turnarounds sometimes take a few months longer than you expect. Did you look at his business plan and think, “That’s all going to be fine”?

Dominic Chappell: No, not at all. We met with Darren and the operational team, all of whom are hard-working, decent people. We spent a lot of time with them. Stephen Bourne spent quite a few weeks with individuals, speaking to them about their individual part of the turnaround plan. We felt internally that it needed more back-up and more support—they weren’t going to get their way out of the problems—

Q1435 Jeremy Quin: So you appointed some retail experts to assist them.

Dominic Chappell: We brought in Grant Thornton to—

Jeremy Quin: No, retail experts. Grant Thornton may be wonderful, but they are not retail experts.

Dominic Chappell: Yes. We were advised by a couple of retail experts. We also took advice—

Q1436 Jeremy Quin: Anyone on the board?

Dominic Chappell: No, not at that time.

Jeremy Quin: At any time?

Q1437 Frank Field: Who were the experts?

Dominic Chappell: We spoke to Alan Jacobs and to Kevin Lyons.

Q1438 Frank Field: Of whom?

Dominic Chappell: They are two individual people who specialise in retail.

Q1439 Jeremy Quin: I know other colleagues will pursue that line of inquiry, but I want go back to the cash for a moment. On the cash and the proceeds going out, what I was getting to is: in any turnaround plan, things can go right and things can go wrong, and you need to have the cash behind you in order to ride those ups and downs. You are buying into a brand new team and you did not know these guys—they could be brilliant retailers, or they might have stuff to learn. You did not have a non-executive board stuffed full of retail experts, so you were going to be learning on the job, and you needed cash behind you. I was interested in how much cash you had behind you.

Happily, we have the BHS opening cash position that was reported to the Taveta board in front of us, which shows £94 million of cash facilities available. Part of those—a large part—was from the proceeds of the sale of various properties around the deal. What was the

purpose of the £35 million that was deposited in the Olswang account, which we are told by Paul Budge was critical for establishing your credibility, and where did it come from?

Dominic Chappell: That was from the Dellal family—from ACE, their trading operation—and that was purely to purchase Marylebone House.

Q1440 Jeremy Quin: By whom was Marylebone House owned at that stage?

Dominic Chappell: It was owned by Philip's trust, I believe. Wilton Investors or Wilton Capital—whatever it is called.

Q1441 Jeremy Quin: Okay. So that is not a subsidiary of BHS Group; that is owned by the trust.

Dominic Chappell: Completely out of BHS.

Q1442 Jeremy Quin: Just to be absolutely clear, the £35 million that you used to establish your credibility with Paul Budge was £35 million that was going to go to Sir Philip Green to purchase a property of his—owned by his trust—that was outside of the BHS Group.

Dominic Chappell: Correct. We also had an undertaking to purchase North West House at the same time. We were doing both head offices at the same time.

Q1443 Jeremy Quin: Okay. I will come on to North West House. Was Paul Budge aware that that was what the money was earmarked for?

Dominic Chappell: Yes, he was.

Q1444 Jeremy Quin: Fine. So you were buying and then on-selling a property from Sir Philip, and the value of that was £45 million. Is that the total value?

Dominic Chappell: It was. We also had an uplift agreement with ACE on further sale proceeds when that property was either sold or redeveloped.

Q1445 Jeremy Quin: What happened to that transaction?

Dominic Chappell: The day before the transaction was due to complete, Philip came back and said, "I can get more money for it. I've been offered far more than you can get for it. I'll tell you what I'll do: I'll pay you the £10 million. I will then split the upside that we get from £45 million to £50 million. I will make two and a half more million"—

Q1446 Jeremy Quin: So he is selling it for £50 million now.

Dominic Chappell: Yes.

Q1447 Jeremy Quin: To whom?

Dominic Chappell: I don't know who he was selling it to.

Jeremy Quin: Carry on.

Dominic Chappell: Fine—we carried on. We were presuming—Philip gave an undertaking—that it would be within a week. That was the deal structure, and that's what happened. A week went by. We completed. Nothing happened. No money came into the account.

Q1448 Jeremy Quin: Dominic, I have got here the proceeds from Marylebone House of £8.5 million appearing in the cash.

Dominic Chappell: Yes.

Q1449 Jeremy Quin: So you were expecting £8.5 million to be there. This is day one on this.

Dominic Chappell: Yes.

Q1450 Jeremy Quin: But it wasn't.

Dominic Chappell: No. We took Philip at his word—that he would stand on for the money that he owed the company. It was a default payment. We contracted to buy Marylebone House and he defaulted on Marylebone House.

Q1451 Jeremy Quin: Was it in the SPA, or was it a separate agreement?

Dominic Chappell: No, it was a separate agreement

Q1452 Jeremy Quin: Separate agreement—okay; and that didn't happen.

Dominic Chappell: No.

Q1453 Jeremy Quin: But he did subsequently produce cash.

Dominic Chappell: Yes, he did. He paid £10 million in total. It was £6.5 million into RAL as a hold harmless, effectively, against RAL and Arcadia, and there was a soft loan—

Q1454 Jeremy Quin: Sorry—a hold harmless?

Dominic Chappell: Yes.

Q1455 Jeremy Quin: So you could have pursued him for the money that he owed you, or—

Dominic Chappell: Yes.

Q1456 Jeremy Quin: So you are using the term “hold harmless”, as that was a release of the non-written contract that you had with Philip to provide you with those funds.

Dominic Chappell: Correct, yes.

Q1457 Jeremy Quin: But that was £8.5 million cash that you should have had on day one and you didn’t get until June, I think it was.

Dominic Chappell: It was two months later.

Q1458 Jeremy Quin: Thank you. The proceeds from the sale of North West House—that was a BHS asset, I understand.

Dominic Chappell: Correct, yes.

Q1459 Jeremy Quin: And you sold it to the same party, to ACE.

Dominic Chappell: That’s right, yes.

Q1460 Jeremy Quin: That was the money that was used from the Olswang account. It says in the cash statement that there is a BHS opening cash position of £94 million. It includes £32 million for the sale of North West House, but there is a note saying that £25 million was in the BHS accounts, and the balance was transferred elsewhere. So where was that £7 million balance transferred to?

Dominic Chappell: Retail Acquisitions. It remained in Olswang’s account for a week, 10 days. We had transitional fees to pay, which we paid; we would have preferred the money from Marylebone House to come into Retail Acquisitions and we would have paid out of that. What we didn’t want to do was debt-burden BHS. We could have put the whole deal structure cost through BHS, but we didn’t. We kept that outside of the balance—

Q1461 Jeremy Quin: I’m sorry, that is slightly semantic, Dominic, if I may say so. You sell a BHS asset and you take out £7 million. Whether you take out £7 million or leave £7 million in but take it out another way, it is slight semantics.

Dominic Chappell: But within six weeks we put £10 million in.

Q1462 Jeremy Quin: Okay, I want to hear where that £10 million came from, then. The statement actually refers to £5 million of equity; so you put in £10 million of equity.

Dominic Chappell: We put in £10 million, yes, which was the £6.5 million hold harmless amount from Philip—

Q1463 Jeremy Quin: Okay, so that’s already here. Sorry, £6.5 million?

Dominic Chappell: Yes, £6.5 million from Philip, which is a hold harmless amount, and a £3.5 million—

Q1464 Jeremy Quin: I thought you said it was £8.5 million you got.

Dominic Chappell: No. We got a total of £10 million. I negotiated up from the £8.5 million to £10 million, and Philip gave us a £6.5 million hold harmless payment and a further £3.5 million loan from Tina Green into Retail Acquisitions, which we then paid directly into BHS; so BHS benefited to the amount of £10 million.

Q1465 Jeremy Quin: So the £8.5 million that is in this schedule wasn't £8.5 million; it was £6.5 million, on Marylebone House.

Dominic Chappell: And a further £3.5 million.

Q1466 Jeremy Quin: Yes. That £3.5 million is great, but it is a loan.

Dominic Chappell: No, it's a loan to Retail Acquisitions, not a loan to BHS. It went in as equity into BHS, so BHS had £10 million of equity injection from RAL directly into BHS.

Q1467 Jeremy Quin: Out of curiosity, was it a normal commercial loan to you from Tina?

Dominic Chappell: No, it was a very soft loan from Tina Green. It should have been a straight £10 million payment from Philip, as he warranted to do on the close of the transaction, but he couldn't help himself—help making it a more complicated issue.

Jeremy Quin: Yes, it sounds it.

Q1468 Frank Field: Can I just ask something? How did it arrive from her? Did it arrive from one of her companies? From her own personal account?

Dominic Chappell: I'll need to get back to you. I can't remember exactly how that came back, but I'll check it and come back to you.

Frank Field: It is the first time she appears in that story, so it is quite interesting.

Q1469 Jeremy Quin: Coming back to the equity, I mentioned the £5 million, which is on this statement, so there is £5 million of equity. That was money that you put into the business.

Dominic Chappell: No, we borrowed that £5 million from ACE Commercial to bridge the period of time, because we needed cash into the business, from when we were expecting the money in from Philip to when the money actually arrived.

Q1470 Jeremy Quin: And so you repaid them.

Dominic Chappell: Correct.

Q1471 Jeremy Quin: Did you?

Dominic Chappell: Yes.

Q1472 Jeremy Quin: Because it says here that a loan was made—what were the terms of that loan?

Dominic Chappell: It was secured against Atherstone, the distribution centre. When we sold Atherstone, we paid down the ACE loan from that.

Q1473 Jeremy Quin: And it was £1 million interest for a £5 million loan over two months.

Dominic Chappell: No, it wasn't. It was to do with the transitional fee. It was to do with putting the money up. It was to do with the rent-free period we got on North West House, Marylebone House and so on.

Q1474 Jeremy Quin: How much did you pay back for the £5 million?

Dominic Chappell: I cannot remember the exact amount. I think it was £6 million, but there were a number of fees attached. It was not, "Here is £1 million for lending us £5 million." There were a number of different fees attached to it: their legal costs, the rent-free period for North West House when they first acquired it, and so on.

Q1475 Jeremy Quin: Coming back to that, that was a loan to you that you put in as equity, but it was equity that was repaid out of BHS.

Dominic Chappell: Yes.

Q1476 Jeremy Quin: Okay. So when I come back to this cash-flow projection that was set out on day one of your ownership, there is £94 million that was presented to Taveta as being the amount of cash in the business. Some £16 million of it was to cover known future liabilities, most of which were short term, such as VAT. You can knock off £16 million. You have told us that on 6 March, the agreement on the pension fund—I or colleagues will come back to that—would involve £15 million of cash going out. The proceeds from the sale of North West House were on the face of it £32 million, but in the BHS Group it was not £32 million, but £25 million, as funds were taken elsewhere. It says here that proceeds from the sale of Marylebone House of £8.5 million were available on day one, but they were not.

Dominic Chappell: No, they were not available for six weeks, and the £8.5 million went to £10 million.

Q1477 Jeremy Quin: Is there anything you can tell us about the proceeds of sale from Carlisle, which is the £4.9 million?

Dominic Chappell: Yes. It did not happen.

Q1478 Jeremy Quin: That did not happen either.

Dominic Chappell: No.

Q1479 Jeremy Quin: Gosh.

Dominic Chappell: Carlisle was assured to go through, but it did not go through. It was a deal that was very difficult, and it took up until September last year to complete.

Q1480 Jeremy Quin: The equity that you provided of £5 million—I reckoned that it had a 198% APR. It was a two-month bridging loan that had to be paid back in May.

Dominic Chappell: No. It was not 180% APR. I have made it very clear that that £1 million—

Q1481 Jeremy Quin: Sorry. I apologise, Dominic. You paid £6 million back, having received a loan of £5 million.

Dominic Chappell: Yes, we did, but I would like to clarify that point. That £1 million note that you are talking about was to do with a rent-free period on North West House for BHS, or a period of rent for BHS. It was to do with legal fees in lending the money for the initial period, and it was to do with—there was another fee in there. I will come back with a breakdown.

Q1482 Jeremy Quin: It is £1 million in the context of £94 million. When I go through this list, which started off as £94 million, I have taken off £16 million. We have taken off a further £15 million for the pension. We have taken off another £7 million for North West House. We have now taken off £5 million for Carlisle. We have taken off £8.5 million for Marylebone. We have taken off £5 million, which was down as equity. In my terms, that should be long term, but it was not: it was going to be repayable in two months' time. There was the £25 million that was the HSBC banking facility. It is available, but it is debt. I am getting to an equity available of between £20 million and £25 million.

Dominic Chappell: That's right.

Q1483 Jeremy Quin: That is what you had to turn around BHS.

Dominic Chappell: No, it's not at all what we had. We understood that BHS needed in or around £60 million to £80 million to turn it around. We needed to include property sales on top of that to get to around £100 million of property sales and cash to turn BHS around.

Jeremy Quin: I would just make the observation, Mr Chairman, that—

Dominic Chappell: What we did was raise £25 million in a short-term loan from ACE Commercial. It was a loan note for a total of £60 million. We drew down the absolute minimum we could, which was £25 million. We replaced that very quickly with the Grovepoint £60 million on a long-term facility—a year note—to start turning things around. At that stage, we were also beginning to sell properties that we did not require within the group, or restructure property assets within the group. When we came into the business, we saved £4 million a year immediately from the rent of both head offices. We had fully intended to close them within two years and move the staff to a more modern and smaller office. We bought in a Carmen group of properties that Philip had taken out, and that saved—

Q1484 Jeremy Quin: Sorry. Could you slow down a little bit?

Dominic Chappell: We bought in a Carmen group of properties that were taken out of the BHS group originally by Philip. There was a profit rent on that of around £6.5 million a year; we saved that by bringing those properties back into the group. So the net benefit of us buying that was a further £10 million of rent savings alone, on the two head offices and the Carmen group properties.

Q1485 Jeremy Quin: Okay. I am just curious that at the time you actually bought, on day one, we were presented with a cash statement suggesting you had £94 million in cash, and I reckon you had £25 million.

Dominic Chappell: No, it was not ideal, but that was the deal that we ended up with, and we always knew that we would have to refinance in very short order, which we did. We then realised that we would have to go and get further funding—a longer-term solution—which we did through Grovepoint. We understood that those pinch points were coming up, we dealt with them, and we delivered the funding that was required, as per the business plan, when it was required.

Q1486 Jeremy Quin: Given that you only had clarification on the pension on 6 March, how much time did you actually put into working through what the pension plan would be like and how you would be able to honour that obligation?

Dominic Chappell: I met Chris Harris a couple of times, once with Eddie Parladorio, and both times he was supportive of the programme we had. He reported that he had spoken to the regulator. Providing that we were going to work with the regulator, then that issue—we would work together closely to deliver a Project Thor or Project Vera, which it turned into, and that is what we did. Within days of buying BHS, we had a full and open meeting with the regulators. Philip sent his men down from Deloitte. The regulators would not talk to them, correctly, at the time, and asked them to leave the room, and we had a very open and frank discussion with the regulators.

Very shortly after that, we received a section 72 notice from them. That basically caused us a lot of issues going forward raising funds, because not only was the company a loss-making company, and had been loss-making for seven years—on average £30 million to £50 million a year—but going forward we had a big pension liability and, to boot, we had just been served a formal notice of section 72, with full investigation by the regulators.

Q1487 Jeremy Quin: May I put it to you, Dominic, that you should have known that when you bought the business? Everything you have just told me would have been very apparent to anyone who had done appropriate due diligence at the time that they bought the business.

Dominic Chappell: We did full due diligence on the business; Grant Thornton worked tirelessly on that, and so did Olswang. We had full advice on that side, and we had full background knowledge of the pension. We had met the chairman of the trustees, who told us that he was prepared to work with us at the time to deliver a Project Vera or Project Thor. We met with the regulators as soon as practicably possible after we acquired the company, and that was that.

There were three main issues that meant this company failed. One issue was the continuous battering by the Pensions Regulator and Philip. Their inability to negotiate or deal with us separately from Philip caused us massive amounts of problems. The second part of that—the important part—is that when we bought the company, the trade credit insurance had already been pulled, because Philip made an announcement in January that he was either going to sell the company or liquidate it. He had already lined up Hilco and others to liquidate the company. If we had not bought it, he would have liquidated that company for sure. Philip gave a clear undertaking that he would deal with the insurers or cash-collaterally back it to make sure that we could go forward trading as a company. It caused us a lot of problems. We had to find another £30 million very quickly to cover trade credit insurance—

Q1488 Jeremy Quin: Have you got any documentary evidence of that?

Dominic Chappell: Yes, we have.

Jeremy Quin: We would like to see it.

Dominic Chappell: Gladly.

Q1489 Frank Field: Could we have details of the costs of the advisers to you as well?

Dominic Chappell: Yes, we will give you a full schedule of who got what. I believe we have already disclosed that to the regulator, openly, and we will do that on request.

Q1490 Frank Field: Trying to run this business, Dominic—there is a gentleman on the bridge where you go and bet with him. You put something valuable under three tumblers and then he moves them about madly and you say, “It’s that one.” You have paid your money and

he picks it up, but there is nothing there. It seems that there were lots of promises of actual property for you, but when you went to call on that property to get the value needed for the business, the cup was taken up and the property had gone somewhere else.

Dominic Chappell: There are some very big issues at BHS. One is that for the past 10 or 12 years there had been little or no inward investment in the stores. We picked up a very wounded portfolio of stores. When we got in there, we broke out sections of who was going to do what part of it, and I picked up the property piece. Mark Sherwood and I travelled the country for a few days and then regularly went to see the property portfolio. We started off by seeing 20 properties in two days, which were the really poorly performing properties—the properties that were losing nearly £1 million a year—to see what we could do with them. We then gathered our information together and went back. That helped form the business plan that we were doing. It was very difficult to get to the bottom of what the business was.

Q1491 Frank Field: But before the point of ownership, was there a loss of property from the portfolio that you thought was coming? Were they being sold to other people—assets that you thought were going to be part of the BHS empire?

Dominic Chappell: No. The only one that was sold was Ealing. It was a transaction that had already been agreed—it was going through. Philip asked our permission, because we were in the final throes of buying, whether we wanted to keep it or not. We thought the transaction, on the face of it, was a relatively good position. What we weren't informed was that Philip had sold it to his stepson.

Q1492 Frank Field: When did you learn that?

Dominic Chappell: We learned it from a newspaper article, I believe in the—

Frank Field: *Sunday Times*?

Dominic Chappell: *Sunday Times*. We were shocked to learn that and we were also shocked to learn that there was another £3.5 million profit that should have rested with BHS.

Q1493 Chair: Did you raise that with Philip Green?

Dominic Chappell: I did.

Q1494 Chair: And what did he say to that?

Dominic Chappell: He just said, “Well, that’s showbusiness”, effectively.

Q1495 Chair: Those were his actual words: “that’s showbusiness”?

Dominic Chappell: Those were his exact words, yes. When questioned by the regulator about whether he had sold any properties in the last 36 months to any connected parties, he put “no”. Then, when it broke in the *Times*, he had to put a retraction to that, to say “Oh yes, I forgot. The day before I sold the business I sold one to my son-in-law”.

Q1496 Frank Field: On another matter, we have been trying to get information on this and your lawyers keep saying “No, we won’t tell you”, because of privilege. Might you lift that privilege, so we could actually have the advice they gave you, please?

Dominic Chappell: We are looking at our position at the moment on whether a legal suit could be filed against Arcadia/Philip. When we have got to the bottom of that, we will certainly make available as many documents as we feel you need to explore the whole deal.

Q1497 Frank Field: What we need is not you choosing kindly for us, but for you to say to your lawyers, “You can’t keep going on telling the Committee that half its questions can’t be answered”. You could actually give permission for them to be answered.

Dominic Chappell: It is a complicated issue. We are currently under directors and officers insurance; the insurers have requested that we do not release any documents at this time, otherwise it could void our—

Q1498 Frank Field: That includes on the Grant Thornton side as well?

Dominic Chappell: Yes. It could void our insurance. We are on a difficult path, but I will use best endeavours to ensure that the documents can be released.

Q1499 Chair: On that Grant Thornton point, could you give us an outline with as much detail as you possibly can in terms of the nature of the due diligence that was carried out by that firm?

Dominic Chappell: Yes. They did a pre-due diligence report for us. It was an extensive report and it went into every aspect of BHS—cash flow, the property side, pensions. It was a very comprehensive piece of work. I think it had a team of 20-plus people working on it for the best part of three to four weeks.

Q1500 Chair: Was one of the recommendations or insights, “You’ll need deep pockets for this. You’ll need a lot of cash in terms of working capital, and then you will need to refinance based on your own situation in order to get that working capital”?

Dominic Chappell: The number that we had all come to—this is pre-Grant Thornton, when I was working on the bid prior—was £120 million. £120 million was the number that we needed to get to, to make this business plan work.

Q1501 Chair: That was the actual sum that Farallon was—?

Dominic Chappell: Yes. The Farallon facility— I have a term sheet here that I will gladly leave with you. This was a comprehensive term sheet done. I saw the interview by Farallon and I was quite shocked at what they said. I believe a lot of it was inaccurate. We have a full term sheet there. It was work in progress. We had not had sight of the due

diligence—we can't arrange funding without doing full due diligence and the funder being given due diligence. It was work in progress and there was a definite speed and haste for this transaction led by Philip, to get this done as quickly as possible.

Q1502 Chair: But you need this cash; you are working on the assumption of about £120 million of working capital and Farallon are working towards that. Why did that not come to anything?

Dominic Chappell: Because of the speed of the transaction. We were given 21 days to do this transaction.

Chair: Philip Green essentially said—

Dominic Chappell: Absolutely. “You’ve got 21 days”.

Q1503 Chair: Were there other buyers in the frame for this?

Dominic Chappell: I don't believe so, but I don't know.

Q1504 Jeremy Quin: You made quite a big allegation regarding that term sheet you have there. We heard the other day that that term sheet was subject to credit committee approval, subject to due diligence and subject to the sorting out of the pension fund.

Dominic Chappell: Yes.

Jeremy Quin: So that is not committed money.

Dominic Chappell: No, but the term sheet was produced before we had access to the data room and before we had access to the pension people. This was a term sheet subject to those conditions, like you would expect for any other M&A-type deal to go forward. We had a willing funder to fund the company subject—

Q1505 Jeremy Quin: No, I'm terribly sorry, you don't have a willing funder. You have someone who's saying, “We can fund £120 million for you if we agree to do it and if we do the due diligence and if we sort out the pension.”

Dominic Chappell: Sorry, we had Farallon producing a term sheet for us, going to Goldman Sachs and saying, “Yes, we are very committed to doing this deal”—

Q1506 Jeremy Quin: No, they didn't say that.

Dominic Chappell: I'm sorry. I was involved with the deal; you weren't. If you speak to Goldman Sachs, you—

Q1507 Jeremy Quin: I've seen the emails from Goldman Sachs saying that there is considerable uncertainty regarding that lend.

Dominic Chappell: Fine. I would call Anthony Gutman back in here and ask him what Farallon said to him.

Q1508 Jeremy Quin: We know, because it's in the email trail between Mr Gutman and his client.

Dominic Chappell: It's not a finished deal. It's not a cheque to write on the day. There was a lot of work to be done in those 21 days when we got access to the data room. We had no access to the pension; we had no access to the actual accounts of the company or the property portfolio; we didn't know where all the assets were.

Q1509 Jeremy Quin: So did you ever get the £120 million?

Dominic Chappell: We raised—

Jeremy Quin: From them.

Dominic Chappell: No, we didn't, because Philip arranged for significant funds to be left in the business for us to carry forward—

Q1510 Jeremy Quin: That's the £94 million, most of which is illusory.

Dominic Chappell: We then went on to raise a further £60 million for the business, so effectively we raised nearly £90 million of cash for the business and we were continually selling the property. We also negotiated a £60 million facility with Gordon Brothers to move the business forward over the Christmas that has just gone.

Q1511 Frank Field: Had Sir Philip not tipped you into administration, would those 11,000 people be working today without the threat that they are going to end up at Jobcentre Plus?

Dominic Chappell: Yes, they would. I believe strongly, and so do my team, that there was a credible and viable position that we could have worked our way through, with assistance from Arcadia. They had a duty of care to us. We were a very large supplier to Arcadia and we believe firmly that that could have been done.

Q1512 Frank Field: Do you think Sir Philip has used you, in the sense that a lot of money came out of this business, then there was a fallow period and then you could say he needed someone to sell this business to, with debt and this huge pension liability? Looking back on it, do you think he set you up for this?

Dominic Chappell: I think Philip genuinely thought that we would fail. I think he was—

Q1513 Frank Field: But he sold to you nevertheless.

Dominic Chappell: He sold to us nevertheless. We were doing a very big turnaround position. I believe firmly that he was very hostile about us doing the property CVA. He did not believe that we could get it done, and he believed that the company would collapse. He made it incredibly difficult for us to do that property CVA regarding his floating charge, but we pulled it off. We got through the property CVA on a 98% vote by the landlords. We worked tirelessly on the landlords, trying to renegotiate the positions of those rents, in the year leading up to it, and not one single landlord would move. Michael Hitchcock, who was very damning about me on one of the previous panels you had here, came in and made a lot of noise: “I’ll deal with the landlords. I’ll do this; I’ll do that. I’ll sort out the funding.” He is a man of many words and very little delivery. He met the landlords and not one single landlord went on his grand plan of restructuring—not one. He wasted a lot of time and effort with Wells Fargo and did not produce a single penny. We as RAL produced tens of millions of pounds for the company, when and as it was required, and continued to do so on the way through.

Q1514 Richard Fuller: Mr Chappell, you said you had a term sheet from Farallon Capital with you. May I look at it?

Dominic Chappell: Sure.

Q1515 Richard Fuller: When you first met Sir Philip Green, what sort of credentials did he ask you to provide?

Dominic Chappell: He didn’t.

Q1516 Richard Fuller: Did he ask you any questions about your experience?

Dominic Chappell: Yes, he asked questions about my experience. I had a very frank conversation with him. I told him openly that I was involved in a bankruptcy, which I had let Paul Budge know in September by email. I was very open about our abilities and that, as a group going forward, we would get people in when and as required. The big issue that we had—we fully intended to go and get a big-name commercial CEO for the company, but when we got through the door, the pension people served a section 72 on us and we could not get one of the big names to come through with that amount of flak flying around between Philip and the Pensions Regulator and a full-blown section 72 notice served on BHS and its directors and owners. It was absolute nonsense.

Q1517 Richard Fuller: So he asked you about that. What else did he ask you about?

Dominic Chappell: He asked us about who did what within our team. He met two or three of the team members in various different meetings. We went through a preliminary business plan that we had produced. We went through the business plan that the management had produced within BHS. We told him of the strengths and weaknesses that we believed showed in the business, and that is how it was left.

Q1518 Richard Fuller: Did he ask you what you knew about retail?

Dominic Chappell: No. I was very open; we knew nothing about retail. We weren't buying into—we weren't claiming to be retailers. BHS had a full retail team led by Darren Topp, and prior to that, Richard. We bought into that. We bought into their dream of a turnaround plan.

Q1519 Richard Fuller: The management's plan.

Dominic Chappell: The management's plan. We met every single one of them. Stephen Bourne, I believe, spoke to virtually every single one of them, and we broke down their plan, examined it fully and came up with our own theories about how that plan should look. When we got through the door, we got Grant Thornton in for a further two months to produce a very hard, full-blown plan to turn around.

Q1520 Richard Fuller: But you thought the plan was a good plan.

Dominic Chappell: It was there or thereabouts. It needed some work, but it could be done.

Q1521 Chair: May I interrupt with a quick question? How long did you think that you would be investing in or owning BHS? Did you think it was a three-year thing for you? Were you going to buy it, flog off a load of property, make a huge profit and then come out?

Dominic Chappell: No. Look, there were three elements to this company. One is the loss that the company was making and had been making for seven years. It was stemming that loss that we were doing huge amounts of work on. It was looking at the reconstruction, the whole point of Atherstone and the distribution centres and how the whole business model worked. It was looking at the stock issues—having huge amounts of stock scattered around the countryside, where they didn't know what was being sold when by the time it left Atherstone.

There were some major fundamental issues with that company. First and foremost, the biggest issue with the company was its enormous lack of investment over a very, very long period of time. There were shops that had no heating. There were shops that had no air handling. There were shops where the staff—bless them—who loved and adored BHS came in at weekends to paint and replace lights, because no one had given that company any money for 10 to 12 years.

Q1522 Chair: But you were struggling to get working capital. You had not even thought about capital investment yet.

Dominic Chappell: No. That £120 million also included capital investment within BHS, which we started to do. We started to roll out the food programme. We sold our franchise of food to Compass. We started to regenerate and reinvest back into BHS.

Chair: Sorry Richard, I interrupted you.

Q1523 Richard Fuller: I was just going back on to the credentials that were asked of you, Mr Chappell. In your first discussion with Sir Philip Green, he didn't really ask you any questions about your background.

Dominic Chappell: Yes he did. I explained to him about my bankruptcies. I explained fully what I had done in the past, my connection with the oil and gas industry, some of the bigger projects I had worked on and the team we had accumulated behind us.

Q1524 Richard Fuller: And how long was that conversation? Was it an interrogation?

Dominic Chappell: Yes, absolutely. It went on for two or three days, but my deal was structured with Philip and Philip alone. There was no one else within the Arcadia Group who had anything to do with this transaction.

Q1525 Richard Fuller: And you were introduced to Sir Philip by Paul Sutton—is that right?

Dominic Chappell: No, I was introduced to Paul Budge via Paul Sutton. I had no direct introduction to Philip during that period of time.

Q1526 Richard Fuller: So Paul Sutton was your connection to Paul Budge, and then subsequently you met Sir Philip Green.

Dominic Chappell: Correct.

Q1527 Richard Fuller: *The Sunday Times* said that your comment about Mr Sutton was that he was a “grade-A scumbag”. When did you come to that assessment about him?

Dominic Chappell: The situation with Paul effectively is that he led in the bid. It failed in around May-June time. I had racked up considerable costs supporting that bid on the way through. He had a lot of data that he shared with us. In fact, he attended a meeting, I believe, with RiverRock. Over the Christmas period, Paul did a few things that I was very upset about. I was left with some very big bills on the back of his failed attempt on BHS.

Q1528 Richard Fuller: So he was doing work on BHS and he left you to pick up the bill.

Dominic Chappell: Exactly.

Q1529 Richard Fuller: That's not very nice of him, is it?

Dominic Chappell: Not nice at all, and it was a big number. During January-February, when we were very much involved in doing the deal with Philip, he became a nuisance to the point that we had to get a statutory declaration by him, otherwise we were going to sue him, that he was nothing to do with the deal or bid going forward, which we did.

Q1530 Frank Field: You were having these conversations with Sir Philip. You have got a track record in property. Here is a retail organisation, if it is anything, although it has got a big property portfolio. How did you convince Sir Philip that you had a vocation for retail?

Dominic Chappell: I didn't. We are not retailers. I didn't claim to be a retailer. One of the big elements of this was the property side of the business, to renegotiate the entire property portfolio and figure out what to do with that property portfolio, which we did.

The long and short of it is that we bought into a huge management team that had 300-plus years' experience of retail. That was our professional side. That was the side led by Darren Topp and that did the retail business while we did all the other bits round the outside. The long and short of that retail side is that we met Darren. Richard Price was on his way out of the business and had already resigned prior to that. We met Richard and asked him to stay and he could not; he had already given a commitment to Tesco.

We then looked at Darren. We were impressed by the initial presentation that he gave us and we asked him to stand in as an interim CEO. Unfortunately, during that period of time we got served a section 72 and it became impossible for us to recruit a big heavy name for BHS moving forward, until such time as the pension furore was dealt with.

Q1531 Frank Field: But when Sir Philip was interviewing you on this, would he not have seen you as a property person, not necessarily just to renegotiate rents, but who could and might actually plunder the property portfolio? Did he express any worries to you on that?

Dominic Chappell: No, because there was a full-blown management team more than capable of running the retail side of the business.

Chair: Richard, do you want to come back?

Q1532 Richard Fuller: Oh yes, please. This separate agreement about the properties and Sir Philip Green, why were you doing that?

Dominic Chappell: Why were we doing it?

Q1533 Richard Fuller: Yes, what was the reason for that?

Dominic Chappell: It was making a huge profit for us.

Q1534 Richard Fuller: Who is "us"?

Dominic Chappell: Retail Acquisitions—that we could then invest into BHS, or cover costs that we had racked up during the course of the acquisition of BHS.

Q1535 Richard Fuller: Why not just do it as part of a straight transaction and put some more money on the balance sheet of BHS?

Dominic Chappell: Because it was not part of BHS. It was a completely separate standalone company.

Q1536 Richard Fuller: That is my question. Why was it a separate deal with a separate individual to do with a corporate transaction?

Dominic Chappell: Because it was not owned by BHS. BHS was in occupation within Marylebone House. It was a separate entity owning that; it could not be tagged to the same entity. It was a completely separate transaction. Philip bought that property some two or three years prior for around £30 million. The valuations that we and he had done were around £35 million. We were just very lucky to get a significant uplift in price because the Dellal family at the time wished to build a hotel or big complex and was looking for a landmark building. We were able to leverage the price significantly on that position.

Q1537 Richard Fuller: It was coming into RAL rather than BHS to cover your fees first and then the residual.

Dominic Chappell: Absolutely, and then the residual £3 million would have gone into BHS as an equity push.

Q1538 Richard Fuller: Okay. I've got the term sheet here from Farallon. I should not necessarily call it a term sheet but it says term sheet at the top, but it has a number of conditions and it is unsigned by any party. It does say that nothing in this document should be construed as a commitment. It says in tranche 1, the conditions to utilisation include a specific reference to a Marylebone purchase of an NW house put option.

Dominic Chappell: Yes.

Q1539 Richard Fuller: So these transactions were absolutely critical to the funding that was potentially going to be provided by Farallon Capital.

Dominic Chappell: Correct.

Q1540 Richard Fuller: So when they went away, this went away.

Dominic Chappell: Absolutely, but look, this was a position of property funding, which we delivered on every time we were required. The longer-term position that we had was with Grovepoint, when we delivered a £62 million facility for BHS.

Q1541 Richard Fuller: I understand that long-term point but I am interested in credibility at the point of transaction. As you may have heard in earlier sessions, we are working through what was really happening between Paul Budge, Goldman Sachs, Farallon Capital and yourselves, and the board of RAL, the directors of RAL. It is not at all clear yet, so maybe you can help shed some light.

To repeat, we had evidence from Paul Budge that Goldman Sachs’ “observations were that they”—RAL—“had ability proof that they had lines of funding for £120 million through Farallon. That was very important.” He said it was very important.

Dominic Chappell: Yes.

Richard Fuller: We then had Farallon saying, as you heard yesterday, “There was no committed financing available to anybody”—presented this somewhat as a rebuttal in your view of that. Then we had the evidence from the directors today, regarding the email on 6 March, that it was not Mr Bourne’s area—he was just a pass-through really—but there was this gentleman called Michael Morris, who was copied in with an @AOL email address. Who is Michael Morris, and what is happening here?

Dominic Chappell: Michael Morris is a corporate financier. We brought Mike into our team. I have worked with Mike on a number of different projects. Mike has delivered every single time, and continued to do so right the way through here, but the fact of the matter was that Philip saw that term sheet, said it was “an expensive form of amusement”. He knew it would take six to eight weeks to go through the whole due diligence process. He was in a hurry to get this done, and he replaced that facility with an Arcadia funding facility via HSBC.

Q1542 Richard Fuller: So he said this was a what form of amusement?

Dominic Chappell: “An expensive form of amusement”.

Richard Fuller: And he previously described it as, “That’s show business”. He has colourful metaphors—

Dominic Chappell: He certainly does.

Richard Fuller: —when it comes to selling a company that is losing £70 million a year.

Q1543 Jeremy Quin: You just mentioned that the HSBC facility was Arcadia arranged.

Dominic Chappell: It was, yes.

Q1544 Jeremy Quin: So it was guaranteed by Arcadia.

Dominic Chappell: It was.

Q1545 Jeremy Quin: Bang goes another £25 million from this cash flow statement.

Dominic Chappell: No, it doesn't.

Q1546 Jeremy Quin: What is it worth, and for what period were they guaranteeing it?

Dominic Chappell: I think it was a year or two-year facility.

Jeremy Quin: A year, or two-year facility.

Dominic Chappell: Yes.

Jeremy Quin: I will come back to it.

Q1547 Richard Fuller: I am really not sure—just help me. When Mr Bourne, your director, sent that email saying, “There is capital available from Farallon of £120 million,” was he right?

Dominic Chappell: No, he wasn't, because what happened was that in the final two weeks of the close, Stephen Bourne went to America, working on another transaction for another client. He was out of the loop for a lot of what had gone on. A lot of things had moved forward since then. We were fully engaged with Farallon all the way through the due diligence process. They had engaged with lawyers—they painted a very stand-back picture yesterday, but they were fully engaged all the way through to do their due diligence, to be able to put that to their committee, which they had already done once, to get a full, final term sheet for us to sign to start drawing down funds for that facility.

Q1548 Richard Fuller: So Mr Bourne wasn't right in saying that it was there. You said he was out of the loop. Mr Bourne has made representations to the chief financial officer of Arcadia—

Dominic Chappell: Yes. Stephen Bourne, in the final two weeks, spent a lot of time out of the country and missed—there were a lot of moving parts towards the close of this transaction. This is something that was done. We were working literally night and day on this, and Stephen missed a number of points on this, because Mike Morris was dealing directly with Farallon.

Q1549 Richard Fuller: Was there any effort subsequent to that email by Mr Morris, who had been copied in on it, or Paul Budge to validate that the £120 million was there?

Dominic Chappell: We were not required to validate it. All we were required to do was to say, “There is a term sheet here. We have got to go and do due diligence. We have got to look at the company. We have got to make sure that the pensions situation is correct”—as you would do on any M&A deal. It is a perfectly normal, rational decision from Farallon to

issue a term sheet that reflects that you have got to do the due diligence. They are not going to just write us a term sheet and say, “Here’s the money—fill your boots,” are they?

Richard Fuller: I don’t know.

Dominic Chappell: Of course not. They have to do due diligence and be satisfied what they are lending to, which was the property side of the portfolio, so their due diligence part was a relatively simple part. It wasn’t due diligence on the business, because they were not lending to the business; they were lending on the property portfolio—the free and unencumbered property portfolio.

Q1550 Richard Fuller: For final clarification on this story, was the term sheet—this document—shared with Paul Budge?

Dominic Chappell: Yes it was. Goldman Sachs, Paul Budge and Philip.

Q1551 Richard Fuller: So they had seen the document. Therefore, you have grounds, in your view, to say that the testimony that we had yesterday from Farallon Capital about what they had written, they were presenting inaccurately to the Committee.

Dominic Chappell: Not inaccurately. What they said was that they had issued a term sheet subject to due diligence. The Arcadia management were fully aware that we had a term sheet subject to due diligence. We had not got into the due diligence stage with BHS. It ended up with Philip saying, “I don’t to wait another six weeks. I will organise a facility of £50 million”—or whatever it was—“through HSBC,” which he then went to do. It was supposed to be through Goldman Sachs, but that didn’t materialise and it ended up going through HSBC.

Richard Fuller: Okay. I will hold for now, and maybe come back later.

Q1552 Chair: The message you are giving us is that BHS required cash. It needed working capital of whatever figure—£60 million to £120 million. It had not been invested in for quite some time, so there was an urgent need for capital investment. Why were you taking cash out of the business?

Dominic Chappell: It was deliverable fees that we had accumulated during the whole process of buying BHS.

Q1553 Chair: How much did you take out of the business?

Dominic Chappell: I will give you a full breakdown of that in a spreadsheet. I am not going to go line by line through each item.

Q1554 Chair: Give us a flavour.

Dominic Chappell: No, I won’t. I will give you a full breakdown of that as soon as practically possible.

Q1555 Chair: When will that be?

Dominic Chappell: As soon as practically possible.

Q1556 Chair: This week?

Dominic Chappell: If it is practical this week, I will do it this week.

Q1557 Chair: What are the practicalities stopping you giving us that?

Dominic Chappell: I need to check that with the D&O insurers that are currently insuring our claims and our legal expenses.

Q1558 Chair: Is it fair to say you have made a profit out of this?

Dominic Chappell: Yes, it is. I have made a profit out of this, but I have also worked in the business continuously during the last 13 months. I racked up considerable fees on the way through, and I also personally guaranteed Olswang and Grant Thornton to the tune of several millions on an abort fee.

Q1559 Chair: Do you feel you have earned that?

Dominic Chappell: Yes, I do.

Q1560 Chair: What do you think about the 11,000 people who are in danger of losing their jobs?

Dominic Chappell: Devastated. They should not have been there. There are two points on that. The first is that this was an exercise by Philip to tip us over. He deliberately waited until such times as his facility hardened—the year. He made it very difficult for us to do the CVA. When we had a very blunt conversation with Philip and he indicated he was not going to support us moving forward, I approached Mike Ashley at Sports Direct. That was on the Thursday night, before Philip was insistent that we called the receivers in.

We went to Olswang's offices on Thursday at 4 o'clock and worked there for 24 hours straight, until Philip Green found out that it was Sports Direct that we were speaking to. There was a willing buyer and a willing seller for the business—Mike was going to save the business. Philip found out about it and went absolutely insane. He was screaming and shouting down the phone that he didn't want to get involved with Mike Ashley, et cetera, et cetera, and then served us the notice that tipped us over.

Q1561 Chair: Thank you. We had Mr Ashley before us yesterday and he mentioned BHS. He was a credible buyer who had the investment to put in and was going to safeguard all the stores and all the jobs?

Dominic Chappell: All the stores and all the jobs.

Q1562 Chair: And that was stopped because of?

Dominic Chappell: That was stopped because of Philip. Sports Direct would have given the company the equity injection it needed to be able to not go through a process. Duff & Phelps would not have been called in, and therefore Philip's theoretical £35 million loan against the company would remain in the long grass, as it was always intended to. Sports Direct made it very clear that they would only do this with the pension agreement, or the regulators agreeing that they would be held harmless moving forward. They did not want to walk into the same fight that we had for a year with the regulator.

Malcolm Weir from the PPF was up virtually all of Thursday night working with us to try to find a solution. He then, on Friday mid-morning, said he couldn't do it in time—he needed to consult legal people to get the legal process started for the PPF to sign this off, which would have taken a number of days. Philip would not give us the time to push that through.

Q1563 Frank Field: Dominic, you obviously have a position and lifestyle to maintain. How much of that money went into your personal account, from the ownership onwards? You may not be able to say how much went to the companies, but how much went to you?

Dominic Chappell: I was paid a regular salary from BHS, but I was working there on a virtually everyday basis. Yes, I did have money from that, from the original transaction, which filled in the £880,000-worth of costs I had leading into the transaction, and also to reward me for all of the nearly £2 million-worth of fees I had to guarantee.

Q1564 Frank Field: How much went into your personal account?

Dominic Chappell: I will send you a full breakdown of that in that spreadsheet as soon as practically possible.

Q1565 Richard Graham: Can we go back to the beginning? Where did the idea for Paul Sutton's original proposal to buy BHS come from?

Dominic Chappell: I have no idea.

Q1566 Richard Graham: Did he, at that stage, work with Eddie Parladorio?

Dominic Chappell: Yes.

Q1567 Richard Graham: So he was involved in the first attempt to buy?

Dominic Chappell: Yes.

Q1568 Richard Graham: Was Swiss Rock the code name used by Paul Sutton when he was trying to buy BHS in 2014?

Dominic Chappell: No, it was Project Albion.

Q1569 Richard Graham: Where did Swiss Rock come from?

Dominic Chappell: That was my company.

Q1570 Richard Graham: Thank you. When the deal between Paul Sutton and the Green team broke down, was it because the deal was unacceptable or because Philip Green got cold feet about Paul Sutton's involvement?

Dominic Chappell: I think that Philip Green had done some due diligence on Paul Sutton, had received some information about Paul Sutton and decided not to transact with him.

Q1571 Richard Graham: So it was more because of the individual and the possible reputational damage to Philip Green from doing a deal with Paul Sutton than the actual details of the deal itself.

Dominic Chappell: No. I firmly believe that Paul Sutton was unable to deliver the deal. He was unable to deliver the finance and unable to deliver the deal.

Q1572 Richard Graham: Right. When you came in, did you effectively pick up the same deal? Whose idea was it that you should pick this up?

Dominic Chappell: It was mine. We were very committed as a team. My team had spent a lot of time on this and we felt very strongly that there was a deal in principle to be had there. There was a turnaround opportunity to be had there. We spent a lot of time going through the property portfolio and the funding requirements—all the bits that you would expect to do on a normal M&A-type deal.

Q1573 Richard Graham: Your team at that stage was fundamentally who?

Dominic Chappell: It was Mike Morris, Lennart Henningson, myself, Mark Sherwood—

Richard Graham: And Eddie Parladorio.

Dominic Chappell: Eddie Parladorio. We had on-off relationships with LEK, other advisory groups, lawyers, et cetera.

Q1574 Richard Graham: So you had all been working on that deal effectively with Paul Sutton for quite a long time, and then you came to pick up the opportunity when he was

asked not to pursue it. So when Paul Budge said that you started from a clean sheet of paper, that is not quite accurate.

Dominic Chappell: No, because we had already been given a lot of the data that we gathered to be able to assess the business. However, it was historical and quite dated—it dated back to June 2013, I believe—and we needed more up-to-date, correct information.

Q1575 Richard Graham: Right. And to what extent were people in Arcadia in the loop about your earlier discussions and then your later discussions with Paul Budge? Was Chris Harris involved, for example?

Dominic Chappell: No. Chris Harris wasn't involved in the earlier days. We had a couple of conversations with Chris, to the point where Mark Sherwood actually went to work in Arcadia's office for about a month prior to the acquisition to get a good grip of the property side.

Q1576 Richard Graham: What would Chris Harris have known about the potential funding from ACE?

Dominic Chappell: He wouldn't have known anything about it.

Q1577 Richard Graham: And who introduced you to ACE?

Dominic Chappell: Lennart Henningson, who was the corporate adviser to the grandfather, Jack Dellal, way back when.

Q1578 Richard Graham: There was no involvement by Philip Green or any of his team to suggest that—

Dominic Chappell: No, no. Definitely none whatever.

Q1579 Richard Graham: Whose idea was the property transaction on Marylebone House?

Dominic Chappell: That was ours.

Richard Graham: Your idea?

Dominic Chappell: Yes. We knew that there was a developed property that was a big profitable section within Marylebone House.

Q1580 Richard Graham: And how did you know that, given that it was a private company that owned it?

Dominic Chappell: Well, we knew the value that Philip paid for the company some two or three years earlier. We knew that a redevelopment of that site would achieve a different number, and we pitched it as a redevelopment on that site.

Q1581 Richard Graham: So you proposed the deal to Paul Budge?

Dominic Chappell: No. Part of the transactional deal was that things like the Carmen property would come back into group. North West House would be sold out. We were going to move the head office away from those two buildings—they were not efficient buildings to work with. We were going to trim down the management team, so we didn't need as much space as we had there, et cetera. It also gave the company two years rent-free in those buildings.

Q1582 Richard Graham: I ask these questions because, to an outsider, it looks as if Philip Green was in a hurry to dispose of BHS. He was looking around for someone to buy it, and if need be he was happy to help create the finance to enable them to do so. What would you say to a description of your purchase that described it in those terms? Would that be a reasonable description?

Dominic Chappell: I think that's a reasonable description. The pinch point was coming up—the March quarter date was coming up—where Philip or Arcadia would have had to put in around £50 million to get it through that March quarter date. It would have required a lot more money from Arcadia, and I understand that the board of Arcadia had said that they were not prepared to fund BHS anymore.

Q1583 Richard Graham: Are you saying that the reason for the hurry—you and other witness have highlighted several times that the deal was done in a great hurry—and your explanation of the motivation was that this was effectively an Arcadia board requirement?

Dominic Chappell: I think there were two pinch points with Philip. One is that I believe the equity company that bought 25% of Topshop and Topman was putting pressure on Philip to concentrate solely on that part of the business, and had been quite strong with Philip that that was to happen. I believe the second part of it was that the energy required and the resource needed to turn BHS around wasn't within Philip's grasp. He had mentally got rid of BHS. He couldn't do it, and Philip's not a person to assign somebody else to do it; he has to do it himself. He has a slight control issue, when it comes down to it.

Q1584 Richard Graham: You described Anthony Gutman of Goldman Sachs as literally the gatekeeper in terms of giving you access to Philip Green for the first time.

Dominic Chappell: Correct.

Q1585 Richard Graham: Who do you think was talking to him about what you would need to show in order to get that access to Philip Green and make your pitch?

Dominic Chappell: I don't know. No one was talking to Anthony Gutman. We needed to come in as a consolidated, good bid.

Q1586 Richard Graham: But he would have been talking with BHS, Taveta and Philip Green.

Dominic Chappell: Yes.

Q1587 Richard Graham: Would they have perhaps laid out their requirements for what would have been a credible bid? Who was advising whom?

Dominic Chappell: I simply don't know what the discussions were behind closed doors. You can only surmise, which I am not going to do.

Q1588 Frank Field: You are the first person, Dominic, to actually give Arcadia a role. Arcadia is this vague thing in the background—it's Sir Philip Green all the time. Are you actually saying that, in this instance, Arcadia decided what to do separate from Sir Philip Green?

Dominic Chappell: No. Philip Green and Arcadia are one and the same.

Q1589 Frank Field: So when you mentioned Arcadia, you actually meant Sir Philip Green.

Dominic Chappell: Arcadia does what Philip tells them to do.

Frank Field: That is our impression of Arcadia: it doesn't actually act on its own behalf but is a platform for Sir Philip Green.

Q1590 Chair: Before I bring Richard back in, Cornhill Capital had documentation showing that there were proposals for you to buy Arcadia. I thought that was a typo, but it seems that you did think it could be a springboard to other things, very similar to what Sir Philip Green did. Did you want to buy Arcadia?

Dominic Chappell: No, we definitely did not want to buy Arcadia. The situation was that BHS has concessions—Dorothy Perkins, Evans, Wallis and so on. All we wanted to do was ensure that if Philip was to dispose of one of those brands, we would be given first option on them because of the synergy between his brands and BHS going forward. We did discuss the brands on the way through. It was proposed and it was taken out of the sale and purchase agreement. It was a line item regarding first option, and it was removed from the sale and purchase agreement.

Q1591 Chair: What do you mean by brands in that context? Was there a conversation along the lines of, "Let's get BHS up and running and profitable, and I might buy Dorothy Perkins"?

Dominic Chappell: We might have bought Austin Reed. We might have looked at Charles Vögele. The situation was—

Q1592 Chair: But you couldn't really get the cash together to buy this one, let alone the next one.

Dominic Chappell: No, no, this is in the future. Down the road, if the company was up and running, we had done the turnaround and we were on the acquisition trail, we would have looked to other brands, but definitely, definitely not at that stage. The only thing we wanted in the sale and purchase agreement was that if Philip was to sell a brand at some stage, he would offer it to us first because of the natural fit of the brands within BHS.

Chair: Okay. Thank you. I do apologise, Richard.

Q1593 Richard Graham: Not at all, Chair. Mr Chappell, how many times were you let down by Philip Green on this whole transaction? It looks as if the first one was the deal where it was going to be pension-free. What was your reaction when you were told that that deal was taken off the table? For example, did you at that stage say, "Right, that's it. That's the end of the deal"?

Dominic Chappell: We as a group definitely looked at walking away from this. We had active discussions during the 21-day due diligence period and we often discussed whether it was worth going forward. We often had that sort of NASA "go/no go" approach, and we were led by professionals on whether it was a viable deal or not.

Q1594 Richard Graham: What made you decide that it was? Some of your own advisers thought the deal was dead at that stage, including Stephen Bourne.

Dominic Chappell: The deal certainly died just before Christmas. We made an approach to Philip. We set out our Ts and Cs of going into buying BHS, and we did not get to the point of getting a term sheet. The deal fell over with RiverRock. RiverRock were particularly weak in their presentation going forward. Anthony Gutman did not like them—he said they didn't amount to a row of beans and we were better off doing it ourselves, which we did; we went and found Farallon. We got additional resources that were needed for the bid and then went back in, in early January.

Q1595 Richard Graham: A previous witness said that you were negotiating constantly with Philip Green.

Dominic Chappell: Yes, we were.

Q1596 Richard Graham: What particular incentive at that stage made you feel that this was still a deal that was going to be successful for all the stakeholders involved, even though the pension fund was being excluded?

Dominic Chappell: The turnaround plan, we believed, was doable. We believed that the company had enough property in it to do an opco-propco transaction, to raise significant

funds through the property part of the company to move it forward. We did not appreciate how difficult it was going to be with the landlords—they were very entrenched from many years of being yelled at by Philip, and they were not willing to help. There was a perception from the very outset that we were Philip's boys, brought in to remove this problem child from Philip but he was still involved in the ether somewhere, and there was a big mistrust all the way through.

The three fundamental reasons why this business fell over are first, that Philip did not sort out the trade credit insurance as he promised to do; he did not bring that in and did not deliver it. He made warranties to myself, to Darren Topp and to our legal teams that he would do so, and/or Arcadia.

Q1597 Jeremy Quin: Sorry, verbally?

Dominic Chappell: He verbally warranted that he would do it.

Q1598 Jeremy Quin: I asked you earlier if you could send any documentation. If it was verbal, that might be quite difficult.

Dominic Chappell: I think there are some emails. We will see what we can find.

Jeremy Quin: Right. It's slightly different to what you said earlier. Thank you, Dominic.

Dominic Chappell: The second part of it is this continuation of nonsense with the regulator and Philip—the fight they had. At the early meeting we had with the regulator, they made it very clear that they would not release BHS in any form until such time as they had dealt with Philip Green.

Q1599 Richard Graham: When were those meetings?

Dominic Chappell: Within days of us buying the company, as we agreed to do.

Q1600 Richard Graham: Yes, but before you bought it, what due diligence had you effectively done on the pension scheme side of things? You had had a promise from him verbally about a £50 million injection.

Dominic Chappell: No, I made it very clear that Olswang had done the legal due diligence on the pension scheme, and Grant Thornton had done the actual numbers of the pension scheme. We had assurances from Chris Martin and the regulator that they would be supportive of a Project Thor or a Project Vera.

Q1601 Richard Graham: And your Project Vera, at that stage, before the purchase, was designed as effectively a recreation of Project Thor.

Dominic Chappell: Correct.

Q1602 Richard Graham: Even though the situation of both the deficit and the corporate had changed significantly in the interim period.

Dominic Chappell: Yes.

Q1603 Richard Graham: So how confident were you that there was not going to be a pension scheme problem and that as the new owner of BHS, you would be able to fulfil responsibilities to some 20,000 pensioners?

Dominic Chappell: On the advice given, and looking at the whole picture of working with Chris Martin—the chairman of the trust—and the regulators, we believed that a solution could be found. We firmly believed a solution could be found.

Q1604 Richard Graham: And immediately afterwards, that was shattered by a section 72 notice.

Dominic Chappell: We got a section 72. They entrenched their situation with Philip. We ended up with a nightmare of compliance and diligence that we had to send to the regulator, which we continue to do. The other issue we had with the regulator was a £10-million-a-year payment into the pension purse, to keep the pension afloat. That very quickly changed to a £25-million requirement, and the insurance premium went up from £300,000-odd to £3.5 million. So all of a sudden, BHS was looking at another £20 million-plus that it had to find to support the current pension scheme.

Q1605 Richard Graham: What was Philip Green's involvement in these discussions, as the previous owner of BHS? Was it about his commitment to inject further contributions to the pension scheme?

Dominic Chappell: Yes. Philip Green and Arcadia had agreed to pay half the current expense of the pension scheme, which was £10 million a year, so they were paying £5 million a year each. They had agreed to do that for three years. If and when we could find a pension solution, whatever money was left over from that £15 million could be used as part of the pension payment. That is why, when we were discussing the first year, it was discussed that around £10 million of cash would be made available from Arcadia, a loan note of £20-plus million, and BHS would then find another £15 million to cover it.

Q1606 Richard Graham: That was why he was included in the discussions. Why did you describe them as “a nightmare”?

Dominic Chappell: It was one of these terrible situations where we as BHS were treated as the ping-pong ball between the two players. We could not get released from the moral hazard and Philip was not going to do anything or release any situation he had until his moral hazard for the pension fund had been resolved and released. The Pensions Regulator

would not give him a number, Philip would not be prepared to give them an offer, and then we just ended up in this twilight zone continuously.

Q1607 Richard Graham: What was the negotiation effectively about? How much was involved?

Dominic Chappell: We were not involved with those pension discussions. That was kept very much behind closed doors, at Philip's camp effectively.

Q1608 Richard Graham: Did Chris Martin give you an idea of what figure he was looking for?

Dominic Chappell: As BHS, we would have been able to do a pension project—Thor/Vera—for around £50 million to £70 million, but they were not prepared to do any form of deal with us until they had dealt with Philip Green and his moral hazard.

Q1609 Richard Graham: And that agreement was never reached.

Dominic Chappell: That agreement was never reached, but we spent a vast amount of time, effort and money getting it to a point where everybody was comfortable, including the regulators, that that was there or thereabouts a deal to be had. But they weren't prepared to engage fully with BHS until such time as they had dealt with Philip on his moral hazard.

Q1610 Richard Graham: So what discussions did you have with Philip about that figure and getting it resolved so you could sort out the pension scheme?

Dominic Chappell: We had endless discussions with Philip, and it was like lighting the red touch paper. He went from zero to incredibly angry as soon as you mentioned it. It was something that was not in his control and he was not dealing with it very well.

Q1611 Richard Graham: How would you summarise the impact of the inability to get a resolution to the pension scheme on your ownership of BHS?

Dominic Chappell: Disastrous. We were unable to raise proper big corporate money by way of equity injection and/or funds within the company because of the continuous concern of the funders regarding this. We had offers from a number of major institutions, subject to the pension resolution being resolved.

Q1612 Richard Graham: Did that also affect your ability to get the big retail name as chairman that you promised?

Dominic Chappell: Correct. We spoke to a number of very big hitters who were willing to come in, but they were not willing to put their name on the door until such time as the pension resolution had been done and Philip was away from the company.

Q1613 Amanda Milling: You have talked about the urgency of the sale and Sir Philip Green's desire to complete very quickly. What were the consequences of that? If you look at events over the last 15 months and what have you, were there any consequences of that urgency?

Dominic Chappell: Yes. I think if we had a normal M&A type of three-month run-in to this deal, we could have had a lot better solution. We would have been able to discuss and look at the pension deficit in greater depth. We would have been able to have time to discuss and speak to the trade credit insurers, who were causing a big problem for the company, and we would have been able to get a proper corporate structure for the company as we went through. We were given 21 days. It was a nightmare. The deal changed continuously on the way through, but eventually, we got the deal done and that was it.

Q1614 Amanda Milling: Just one other question, picking up on a comment you made earlier. You said the turnaround was doable. I suppose my question is under what circumstances, and what more could you have done?

Dominic Chappell: I talk about the three elements. We have talked about the pensions side. The other side of that obviously was delivering the property portfolio CVA, which we did, and we delivered that. The third side was—*[Interruption.]* Well we did deliver the CVA, where we got 98% of the vote and reduced the rents down a considerable amount to make every store a cash-contribution store. The situation with that is effectively that the last piece of the jigsaw really was to make sure that the company was properly funded on the way through. We were there or thereabouts with that funding solution. We just had a very narrowing of our road, because of the very bad trade between November and Easter. The company, don't forget, was losing around £1.5 million a week going forward. We had a lot of on-costs through the separation of the company from Arcadia. There was a big restructuring going on at the same time. We were reviewing the way the whole company operated. We were saving big chunks of money from distribution. We were looking at the way the whole store portfolio worked, the goods that we were going to put in there and introducing new concessions. We did a hell of a lot of work in that first 12 months. I think it's a very important—very important—fact that if we had resolved the pension issue or at least had some way of parking the Philip Green and pension show to one side to allow BHS to negotiate its own position to move forward, we would have for sure been able to raise the significant funds that were needed by way of equity and/or cash injection into the company to move it forward.

Q1615 Amanda Milling: Are there any other things you feel that you could have done?

Dominic Chappell: I believe that we did everything in our power to use best endeavours, even to the point where the company was near collapse, when we rang up Mike Ashley and said, “Mike, I will give you my shares. Just please help us sort the company out.” He was absolutely willing and able to do it and we got railroaded by Philip.

Q1616 Jeremy Quin: If I may, Dominic, I will make a couple more points on working capital and then go back to the Pensions Regulator quickly. You have just said—and I totally understand it—that the company was losing 1.5 million quid a week at this stage.

Dominic Chappell: Yes.

Q1617 Jeremy Quin: So it was a bust company. You told us earlier that if you hadn’t bought it, Philip was going to put it into receivership.

Dominic Chappell: Yes.

Q1618 Jeremy Quin: It was losing £1.5 million a week, so roughly 75 million quid in the course of a year.

Dominic Chappell: Yes.

Q1619 Jeremy Quin: I reckon that you have about £17.5 million of working capital, plus the £25 million loan that is guaranteed by Arcadia.

Dominic Chappell: Yes.

Q1620 Jeremy Quin: I think most people approaching a corporate transaction would wish to have working capital at the outset for two years. It seems to me you have working capital dependent on a one or two-year period—you’re not certain.

Dominic Chappell: As I’ve just said to you, on a number of occasions, we raised an additional £60 million that you should put on your bottom line. Furthermore, we had a significant property portfolio that we were leveraging or selling against to make the business plan work. We identified that the business would require around £120 million over a 24-month period to turn round.

Q1621 Jeremy Quin: What I’m interested in is this. On day one, when you bought this business, I reckon you had about £17.5 million plus the £25 million loan guaranteed by Arcadia.

Dominic Chappell: Yes.

Q1622 Jeremy Quin: You may then have gone on and raised extra capital.

Dominic Chappell: Yes.

Q1623 Jeremy Quin: An example of that was the money you borrowed from ACE in order to support you. That was in July 2015.

Dominic Chappell: Yes.

Q1624 Jeremy Quin: That was a six-month loan. It was secured against your flagship Oxford Street store for that six months. You put the money in place—I don't doubt it—but as a six-month facility in July, they charged you a 4% fee and a 13% interest rate and they had a profit share of between 30% and 50% on the sale of the assets.

Dominic Chappell: Yes.

Q1625 Jeremy Quin: It doesn't seem to be a very good deal.

Dominic Chappell: It wasn't. It wasn't planned. The reason why we had this cash pinch at that time was effectively Philip did not stand good to his word and we had to find an additional £35 million for trade credit, letters of credit, and bank guarantees to move forward. Had we not had to find that, we would not have had that cash pinch and we would not have had to go and raise funds very quickly from there. You imagine going to the public market and raising funds in a company that has a major pension issue—

Jeremy Quin: Totally impossible.

Dominic Chappell: And that loses money. We approached Grant Thornton, and Grant Thornton said, "We will charge you half a million up front to do it and we will probably not do it in three months."

Jeremy Quin: Totally impossible.

Dominic Chappell: We did it in seven weeks—we had the money sorted and done. Furthermore, we then replaced it with a long-term debt by Grovepoint moving forward.

Q1626 Jeremy Quin: Totally impossible, but totally foreseeable: within three months of your acquiring this business, you had a cash crisis.

Dominic Chappell: No, we had a cash pinch that we dealt with, and raised the money to do it. We were fully aware and we delivered—

Jeremy Quin: You can see by the terms it was a cash crisis.

Dominic Chappell: We delivered that money in, for the business.

Q1627 Jeremy Quin: A six-month loan—okay. I come back to this point. What you attribute this crisis to is the trade finance arrangements.

Dominic Chappell: Yes.

Q1628 Jeremy Quin: But you told us earlier that it was a verbal undertaking you had from Philip.

Dominic Chappell: Correct.

Q1629 Jeremy Quin: If it's that important to your working capital three months out, I would have put it to you that having something in writing would be advantageous.

Dominic Chappell: Philip made an undertaking—a verbal undertaking—to a number of people, including Darren Topp, myself and our legal representative, that he would deal with the trade credit insurance, and he did not do it. We took him as a man of his word and he did not stick to his word.

Q1630 Jeremy Quin: Yes, but, when there are 11,000 jobs, having something in writing is quite a good thing. It is three months in and you are going about this stuff—

Dominic Chappell: I understand that fully.

Q1631 Jeremy Quin: I haven't seen the terms of the Grovepoint loan. Are those as exciting as the ACE loan?

Dominic Chappell: No, it was 11% blended, I think it was. We borrowed £62 million and I think the repayment was £72 million.

Q1632 Jeremy Quin: Over what period of time?

Dominic Chappell: A year.

Q1633 Jeremy Quin: So one year's lending again secured and you are paying back £10 million more than you are borrowing: £62 million.

Dominic Chappell: Yes.

Q1634 Jeremy Quin: As I say, I would have preferred to have had a couple of years' working capital, given the scale of investment that BHS was going to require, in order to turn the company around.

Dominic Chappell: We could have developed that had the Pensions Regulator actually left us alone, agreed a solution for BHS and then went off on their cavalier crusade against Philip down the road. But we were absolutely held to ransom by both Philip and the regulator on the way through, which caused us enormous issues to the point where I rang the Pensions Minister. I arranged to go and see her on three occasions and she cancelled every single time. I sent her numerous emails requesting help from Government and she did not reply back on the grounds that she was conflicted. Well, why didn't she find someone else to help? We are

talking about 11,000 jobs on the line and the Pensions Minister felt she was conflicted and could not help.

Q1635 Jeremy Quin: I am sure we will come back to that—thank you for raising it. Can I put it to you that here we have a loss-making business losing £75 million a year? We have discussed your cash position when you bought the business. On pensions you thought you had a deal explained to you on 6 March before an acquisition on 11 March and you inform us that you were told that a deal could be done in relation to the £571 million deficit for £50 million, but you heard that from advisers who thought they had a tentative agreement with the Pensions Regulator. Did you at no stage think it would be a good idea to have a meeting with the Pensions Regulator before buying the business?

Dominic Chappell: We wanted to. Part of the condition of sale is that we were not able to. Philip did not want us seeing the regulator for whatever reasons—we never got to the bottom of that. However—

Q1636 Jeremy Quin: Wasn't that concerning for you, given that it was £571 million?

Dominic Chappell: No, because at the time it was down to Chris Harris, the chairman of the trust—

Jeremy Quin: Chris Martin, the chairman of the trust.

Dominic Chappell: I am sorry, Chris Martin—to agree the deal moving forward. He gave us his undertaking that he would give his blessing, as chairman of the trust, to a Protect Thor or Project Vera and he would deal with the Pensions Regulator going forward.

Q1637 Frank Field: Are you saying that Sir Philip stopped you seeing the regulator?

Dominic Chappell: Yes, I am.

Q1638 Frank Field: How did he do that?

Dominic Chappell: He said, “If you see the regulator, I will call the deal off.”

Q1639 Frank Field: You wanted the deal and therefore this was an effective threat.

Dominic Chappell: Effectively, yes.

Q1640 Chair: Didn't it concern you that he was saying that?

Dominic Chappell: No, because we had had back-channel conversations through Grant Thornton and we had met the chairman of the—

Q1641 Chair: What is back-channel in regards to this?

Dominic Chappell: Grant Thornton had spoken to the regulator and the regulator had informed them that they would be supportive of a Project Thor or Vera—whatever it had turned into.

Chair: Jeremy, do you have anything else?

Q1642 Jeremy Quin: Yes. This just for clarification. You did not see the regulator prior to the acquisition. Did you then immediately try to get engaged with Project Vera and start to get that process under way?

Dominic Chappell: Immediately. Within days of us buying the company, we invited the regulator down with the PPF. They came to Marylebone House—a large number of them. We had a protocol agreed that we would work closely with them. We would disclose as much or as little information as they required and we started that situation. Within a few weeks we received a section 72 from them.

Q1643 Jeremy Quin: We heard from the regulator earlier—you may be aware—that they read of your acquisition through the newspapers.

Dominic Chappell: That's a nonsense. That is an absolute nonsense. They were fully abreast of our position of buying BHS.

Q1644 Jeremy Quin: But not from you.

Dominic Chappell: Not from us.

Q1645 Jeremy Quin: So how do you know?

Dominic Chappell: Chris Martin had spoken to them on a number of occasions.

Q1646 Jeremy Quin: About you in particular as an acquirer.

Dominic Chappell: Correct.

Q1647 Jeremy Quin: Okay. But you were not allowed to speak to them direct.

Dominic Chappell: No.

Q1648 Jeremy Quin: That would have concerned me, because they obviously had, as your testimony suggests, an impact on the business going forward. One final question. You are in a situation where, in my view, your working capital is parlous at the outset. You have plans to raise funds, I acknowledge that—

Dominic Chappell: Not plans to raise funds. We delivered funds and we delivered in funds when required. We delivered every time they were required.

Q1649 Jeremy Quin: You did, Dominic, but it's a six-month facility at 13% and—

Dominic Chappell: No, it's not. The initial one, because of the speed we had to do it, was for six months. We then did a year, in the hope we could have sorted out the company on the way through and we could have got rid of this absolutely bizarre nonsense regarding the regulator and Philip that was just killing us.

Q1650 Jeremy Quin: The only question I had on this regulatory point is this. You obviously have considerable frustrations about the regulator and how they acted, and I understand those frustrations, but you had a parlous working capital position and you had to raise a lot of money. Is it not reasonable for the regulator to be looking to Philip to sort out this issue?

Dominic Chappell: Yes, absolutely.

Jeremy Quin: They were acting entirely reasonably in insisting that they had him in the room. They were trying to find some money from where there was money available.

Dominic Chappell: For sure, but we should have been separated out as a company. BHS is a stand-alone company. It was nothing to do with Philip. He had gone. If they had a moral hazard issue that they wanted to go and bark at Philip about, they should have gone off and done that. He's not going anywhere. They had their issues that they could have carried on with Philip. The relentless pressure that we had from the regulator regarding Philip and this £40 million was a nonsense. Either side entrenched—they would not deal with us at all, to the point where I called an urgent meeting with them in January, when we thought, "We cannot carry on the way we're carrying on, because the only way we're going to go is into receivership." We got them in a room and we put it absolutely fair and square to them: "Unless you come up with a resolution or you stand aside and fight Philip separately and let BHS trade through, we will go bust." Look what has happened.

Q1651 Frank Field: So Sir Philip Green was like Banquo's ghost: ever present in all your activities. He created you so you could actually buy, and then he couldn't bear to leave you alone.

Dominic Chappell: No, it wasn't a case of couldn't bear to leave us alone. Philip had a major issue with the Pensions Regulator. There was a moral hazard issue. Philip mentally had his moral hazard around £50 million to £60 million; the regulator wanted significantly more. The big issue was that the regulator would not say, "This is the number that we want." If they had given him a number, I am sure there was a solution to be found. At one stage, we had a £100-plus million facility—sorry, we were discussing a £100 million facility for the pension by way of loan note, by way of contribution from Arcadia and so on, and it still didn't work. It still did not work.

Q1652 Frank Field: But he's ever present, isn't he, because he tips you into administration when he wants to?

Dominic Chappell: Absolutely. I think he challenged the regulator for one final spin of the wheel, they wouldn't come to bear and he just could not face carrying on the way it was carrying on.

Q1653 Frank Field: So he's responsible, you're saying, for 11 million people—

Dominic Chappell: Eleven thousand.

Frank Field: Sorry, 11,000 people walking down the road now having lost their jobs.

Dominic Chappell: I firmly believe that is the case.

Q1654 Amanda Solloway: I would like to come back to retail for a minute. I think Darren Topp said earlier that he was so involved with upward management that he was unable to implement any kind of rescue plan in terms of retail. What would your comments be on that?

Dominic Chappell: That's a nonsense. Darren was in charge of the operation of BHS—the day-to-day running of the retail arm of BHS. He was not involved with the complex bit, although he kept trying to bring himself in. If Darren had spent more time concentrating on his day job of turning around the business and less time worrying about what everyone else was doing—we were off track virtually every single week of our ownership with that. We were off track and off prediction every single week.

Q1655 Chair: So why didn't you sack him?

Dominic Chappell: We were going to. We appointed independent headhunters. Darren and Michael went to see British Land. We had met with British Land the week before and they had concerns about the business not gathering pace, and we shared with them that we had already gone into the market to look for a new CFO and a new CEO. They said that in front of Darren, and that is when the discord happened within the business.

Q1656 Chair: But if you lose your chief exec and your finance director at the same time, that sends out incredibly bad and negative warning signals in terms of the financial viability of the company.

Dominic Chappell: Or does it? If you worked in the commercial sector—in a bank, for example—and you were off track and off target and kept doing that continuously, you wouldn't have a job the following week. This was nine months of a track downwards, not neutral or a track up, culminating in Christmas trade being disastrous and leading into Easter, when the company lost a further £30-plus million off target, which caused another cash pinch that we were then expected to go and sort out for them.

Q1657 Amanda Solloway: So in your view, had you had a more competent CEO, you would have been able to trade and certainly contribute—

Dominic Chappell: Darren was a very competent CEO to keep the business trading while we were going through those difficult times. We always intended to go into the market to get a hard-hitting CEO, but we could not because of the nonsense that we had with the regulator and Philip.

Q1658 Amanda Solloway: One final question: you mentioned some retail expertise in the form of Alan Jacobs and Kevin Lyon. What did they do and how did you use their expertise?

Dominic Chappell: They are very heavily involved with retail and we asked them for advice when and as necessary.

Q1659 Amanda Solloway: So, for credibility on that, what kind of retail were they involved in?

Dominic Chappell: Kevin Lyon did the Bookers turnaround and had other big retail positions. Alan Jacobs, unfortunately, had been involved with Austin Reed recently, but also with Reiss and a number of different retail outlets, including selling Philip the business originally, when it was Powerhouse or Storehouse.

Q1660 Amanda Solloway: Were they employed by you at some point? Did you employ their professional services?

Dominic Chappell: We certainly did with Kevin, but Alan is a friend and I spoke to him on an as-and-when basis when I needed some advice.

Q1661 Michelle Thomson: It may well be that you are going to cover this later in the further information that you give us, but I want to ask about loans from BHS and, in particular, about lending to Colin Sutton. To clarify, what is your relationship with Colin Sutton and what is his relationship with Paul Sutton?

Dominic Chappell: They are not related at all. Colin Sutton has been a close friend of my father's for many years—30-plus. The only thing that Colin did was that, when I was working with Paul Sutton, he assisted Paul on some administrative accountancy within one of his companies and resigned shortly afterwards because, yet again, Paul didn't pay him.

Q1662 Michelle Thomson: So is Colin Sutton on any boards associated with your father or related to any companies?

Dominic Chappell: No. He owns the company that owns my father's house—or the house my father lives in.

Q1663 Michelle Thomson: And that house that your father lives in, is it true that it received a loan from BHS of £1.5 million?

Dominic Chappell: No, it's not true it received a loan from BHS of £1.5 million; it received a loan from Retail Acquisitions for £1.5 million and it was unrelated to BHS.

Q1664 Michelle Thomson: And where did Retail Acquisitions get the £1.5 million from?

Dominic Chappell: From moneys it had earned through BHS and other property transactions.

Q1665 Michelle Thomson: Okay. In terms of your relationship with Paul Sutton, subsequent to the purchase of BHS, has that been discontinued or do you still retain a relationship?

Dominic Chappell: No—very much discontinued.

Q1666 Michelle Thomson: So it's not true that you set up a company in Panama about a month after the purchase of BHS—as reported?

Dominic Chappell: This was to do with the fact Paul Sutton owes me around £800,000. We always kept an open door for if he was able to pay me back through any form of deal. I went to Switzerland because he apparently had Charles Vögele funded and ready to go. I went with my team; it turned out to be yet another wild goose chase of Paul Sutton's. No, I did not become a shareholder of a Panamanian company; however, I was given a document saying that I was and that was it. So no, I have never been a shareholder or a director of a Panamanian company; no, I am not involved with Paul Sutton. We looked at Charles Vögele because it was an opportunity brought to us, and it was a nonsense and we walked away.

Q1667 Michelle Thomson: Okay. So are you going to chase up that £800,000 or have you just written it off?

Dominic Chappell: There's no point. He hasn't got any money, what's the point?

Q1668 Michelle Thomson: Are there any other loans from BHS to any other companies that you would like to declare at this point?

Dominic Chappell: No, there are no other loans from BHS to any companies that I am involved with.

Q1669 Chair: May I just follow something up, Mr Chappell? We have got documentation from Allied Commercial Exporters Ltd that on 4 February you approached them to request a short-term personal loan of £150,000.

Dominic Chappell: Yes.

Chair: You said that you needed that for personal reasons.

Dominic Chappell: Yes.

Chair: They agreed to lend you that £150,000 at an interest rate of 1% per month repayable within two weeks, and £75,000 of that loan has been repaid and the balance remains outstanding. That has now been formally demanded. Have you got anything to comment on that?

Dominic Chappell: Yes. I will be paying them back when and as possible.

Q1670 Chair: But a short-term loan of £150,000 for personal reasons? Mr Chappell, are you going bankrupt again?

Dominic Chappell: No, I am not. No.

Q1671 Chair: But that suggests you might be.

Dominic Chappell: No, I had a tax bill to pay and I paid it. I paid back Alex £75,000 and I've got another £75,000 to pay, which I will do in due course. I have spoken to him directly on that side. It's fine.

Q1672 Frank Field: This is what you mean by a "cash pinch", isn't it? You were explaining lots of "cash pinches" in the firm. You are suffering them personally as well.

Dominic Chappell: It's been a very expensive operation to buy BHS, yes.

Q1673 Chair: But you've made a profit?

Dominic Chappell: Yes, but in making a profit you've also got to pay tax on that profit and there's a hefty tax bill that I've had to pay.

Q1674 Frank Field: And you are going to give us details about the moneys going into your own account?

Dominic Chappell: Yes.

Q1675 Michelle Thomson: Just one more question, going back to this loan to your father, was that agreed by the BHS board?

Dominic Chappell: It had nothing to do with the BHS board; the money was—

Michelle Thomson: The RAL board?

Dominic Chappell: Yes, it was agreed with the RAL board, apart from Eddie Parladorio, who abstained from voting on that.

Q1676 Michelle Thomson: What were the terms of the loan?

Dominic Chappell: I can't remember the terms of it, but it was a commercial loan secured against a property asset.

Q1677 Michelle Thomson: Would you be able to get us details of that?

Dominic Chappell: Yes, of course.

Q1678 Michelle Thomson: What was it for?

Dominic Chappell: It was to do with my family home, which needed to be re-mortgaged.

Q1679 Michelle Thomson: Going back to your tax thing, tax is normally fairly predictable. Do you not normally set aside—what caused the cash pinch that required that—

Dominic Chappell: There was a large VAT bill to pay on funds that had flowed, and also a personal tax bill that I had to pay at the same time. That is where it was.

Q1680 Michelle Thomson: Was that not relatively predictable, in terms of your own forward cash flow?

Dominic Chappell: Yes, it was, but I've got a good enough working relationship with various people, including Alex Dellal. I needed a short-term facility, which he has given me, and it will be repaid.

Q1681 Frank Field: Dominic, who was on the board authorising the loan to you? Who turned up for the meeting?

Dominic Chappell: Of RAL?

Frank Field: Yes, to authorise the loan.

Dominic Chappell: It was Lennart Henningson, myself and Eddie Parladorio.

Q1682 Jeremy Quin: And Eddie abstained?

Dominic Chappell: Yes.

Q1683 Jeremy Quin: So Eddie abstained, but you voted, and it was going to your father.

Dominic Chappell: It was going to a company that owns my father's house, yes; so it was a related transaction.

Jeremy Quin: A related-party transaction.

Dominic Chappell: I made that very clear to everybody at the meeting, and it was secured against the property anyway, so there it was first a fixed charge against a property with a substantial asset-worth.

Q1684 Jeremy Quin: Cash is actually quite important.

Dominic Chappell: Also, £500,000 of that has been repaid.

Q1685 Jeremy Quin: Good; there's another £1 million. Why did Mr Parladorio abstain?

Dominic Chappell: I don't know. He had his own reasons. He abstained from voting. That was it.

Q1686 Frank Field: Dominic, who actually owned the property against which the loan was secured?

Dominic Chappell: The loan was secured into a company that is run and administrated by Colin Sutton, who has no relationship whatsoever—I want to make it very clear: no relationship whatsoever—with Paul Sutton.

Q1687 Frank Field: So what was the property on which the loan was secured?

Dominic Chappell: I've just said: on my father's residence.

Frank Field: Your father's house.

Dominic Chappell: Yes.

Q1688 Frank Field: Owned by somebody called Sutton. You voted at a meeting where one abstained, and you got a majority by voting on the deal yourself.

Dominic Chappell: Yes. But I am a 90% shareholder of that company as well.

Q1689 Jeremy Quin: Would you have had a quorum? If you had not turned up to that RAL meeting, would you have had a quorum?

Dominic Chappell: Er—

Jeremy Quin: Sorry, it is a technical question, but it does seem strange. Given that it is a related-party transaction, the person I would have expected to abstain—no disrespect—would have been you. It would have then been the two independent directors, who are not 90% shareholders in that company, who would determine whether or not the funds of Retail Acquisitions Limited should be deployed in providing that loan.

Dominic Chappell: Maybe.

Q1690 Jeremy Quin: Not maybe; I think that is what most people would have expected: you to be the abstainer, or to have recused yourself from the meeting to allow them to decide.

Dominic Chappell: Look, we are talking about a £1.5 million property thing versus a company that turns over three-quarters of a billion pounds and provides 11,000 jobs. This is a sideshow. If you want to know what happened to BHS, I'll tell you. I've gone through that with you clearly and that's it. I am not going to be drawn any further into this thing.

Jeremy Quin: But can I ask you—

Dominic Chappell: A loan was given from Retail Acquisitions to the company that owns my father's property. I am not saying anything further on that, apart from one person abstained, and it went through. This is a sideshow compared with what BHS is all about.

Q1691 Jeremy Quin: But can I assure you this is not a sideshow because it goes right to the heart of the way this company was being run when it was under the ownership of RAL?

Dominic Chappell: No, you can't suggest that. This was a company that was losing millions of pounds a month.

Q1692 Jeremy Quin: But still managed to find £1.5 million to make a personal loan.

Dominic Chappell: What difference would that have made in the grand scheme of the thing? This is a sideshow in what you're discussing.

Q1693 Frank Field: It made quite a lot of difference to whoever got the loan, though, didn't it? To us, £1.5 million is a lot of money.

Dominic Chappell: I've made my position clear on this. I'm not prepared to answer any further questions.

Q1694 Chair: But there was no corporate governance in Retail Acquisitions Limited at all. It was just a joke.

Dominic Chappell: What do you mean it was just a joke?

Q1695 Chair: Because this could be allowed to happen. Shouldn't your focus have been on the larger £700-million organisation that was going belly up at the time?

Dominic Chappell: Absolutely, and we were working flat out on that 24/7 to deliver that result.

Q1696 Chair: But you could have a board meeting to discuss a £1.5 million loan, which you have said is a sideshow.

Dominic Chappell: It took a matter of an hour or so to decide it.

Q1697 Frank Field: But Dominic, other people have presented you as a Walter Mitty character, but you are a Walter Mitty character who can draw money out of these sums for your own use. My grandmother would have said that it is a Walter Mitty character who knows how to work it for themselves.

Dominic Chappell: That's your own opinion on that. I've come here to answer questions on what has happened to BHS and you are now being very personal in your remarks.

Q1698 Frank Field: I am reporting what other people have said, who were actually running your companies.

Dominic Chappell: Other people have said a lot of things about a lot of people.

Chair: Let's move on. Richard.

Q1699 Richard Fuller: I don't think I'm going to change too much, Chairman. You may not want to answer this question but to be clear, Dominic, how much money did you personally make when the deal and transaction was closed?

Dominic Chappell: As I said, I will send a document to this panel.

Q1700 Richard Fuller: So you aren't going to tell us right now.

Dominic Chappell: No.

Q1701 Richard Fuller: Okay. Can tell us, did you redirect moneys regarding the sale of the properties in Sunderland—£440,000—from BHS to RAL?

Dominic Chappell: Yes.

Q1702 Richard Fuller: Did you redirect moneys from the sale of the Oxford Street property of about £600,000 from British Home Stores to RAL?

Dominic Chappell: Yes.

Q1703 Richard Fuller: Why?

Dominic Chappell: Because RAL had acted and completed those transactions and were due payment directly from the point of sale, as any agent or acting body would have done, whether it be an estate agent or a funder on the way through.

Q1704 Richard Fuller: Did any of that money end up in your bank account?

Dominic Chappell: I can't recall. I will send you a spreadsheet about the money flows that happened from that.

Q1705 Richard Fuller: With the £1.5 million loan that was reportedly made—

Dominic Chappell: No, nothing.

Richard Fuller: The £1.5 million transaction to BHS Sweden—

Dominic Chappell: Yes.

Richard Fuller:—which was made when the company was about to go into administration. Why did you do that?

Dominic Chappell: At that time, we as the owners of the company—RAL—felt very strongly that Darren Topp was on a different agenda with Philip. There were a number of very, very substantial payments that had to be made to professional bodies for the protection of BHS and its employees and its directors, which were voted on at board level with BHS and not made.

Richard Fuller: So why did you return the money?

Q1706 Frank Field: Perhaps you could tell me, what were these payments?

Dominic Chappell: Olswang, Grant Thornton, KPMG, a number of insurance payments had to be made for directors' and officers' insurance to cover the entire directorate and officers of BHS, et cetera.

Q1707 Frank Field: Why was that so important? You have painted the picture of people turning up on Sundays to paint their shop and change lightbulbs. Why was their future less important than paying these bills to these professional bodies?

Dominic Chappell: Because the company was going into uncharted and unprecedented times. I wanted to make sure that the company was doing what the board of directors required it to do, and it was not being done. I was going to make a direct payment to these people. When I got assurances from Darren Topp that those payments would be made, I returned the money fully, bar a £50,000 amount from BHS Sweden.

Q1708 Richard Fuller: But you owned British Home Stores, didn't you?

Dominic Chappell: Yes, I did.

Q1709 Richard Fuller: You didn't decide to fire the directors, if you thought they were doing such a bad job.

Dominic Chappell: It was part of the next stage that we would have replaced, certainly the CEO—

Richard Fuller: But taking the money out—

Dominic Chappell: We fired the FD.

Richard Fuller: We'll come to that in a minute.

Dominic Chappell: Michael Hitchcock had left the business. We put Aidan Treacy in charge of the finances of BHS, the financial directorate of BHS. The next stage was to look to replace Darren Topp.

Q1710 Richard Fuller: So you took that £1.5 million up to Sweden, something that is unrelated to British Home Stores the company, even though it has the name BHS Sweden—just so we don't confuse anyone. Why did you put the money back?

Dominic Chappell: Because I had undertakings and assurances from Darren Topp that those funds would be used for the necessary next staging of an insolvency.

Richard Fuller: Okay, can I—*[Interruption.]*

Jeremy Quin: Perhaps we can get Mr Topp straight back in and ask him some questions.

Chair: I think that's quite reasonable, given the circumstances, because Mr Topp is sat in the Gallery shaking his head and disputing that. My advice is that when we have finished with you, Mr Chappell, we might have a very brief session when Mr Topp can respond to those points.

Dominic Chappell: Sure.

Q1711 Richard Fuller: Your background, Mr Chappell, is property, and you have talked about this in terms of what you can do with it. Is it true that this was a property business in your eyes and that the people who worked for it were an afterthought?

Dominic Chappell: No, not at all. It was clearly an opco-propco transaction. The opco was in Darren's field and the propco was something that was very wounded and needed to be sorted out. It had no investment in those properties whatsoever for a decade. There were a lot of issues with upward-only rents, there were stores losing £1 million a year and no one had a grip on what was going on with the property side.

Q1712 Richard Fuller: But not only was it in the past that no one had a grip; we have heard from you about a series of laying off responsibility to other people. You were introduced to the deal by Paul Sutton; you called him a scumbag. You said you needed capital release from the properties and blamed Mr Hitchcock. You said the pension funds issues were not resolved and you blamed the regulator. You talked about credit insurance issues not being done right and you blamed Sir Philip Green. And heaven knows, I can't use the terms you used regarding Darren Topp in your text message in public, but you said he was off track. Isn't the truth of the matter that you don't take responsibility yourself whatsoever, you just blame others?

Dominic Chappell: No, as a board of directors of course we take responsibility for what has happened, but we—

Q1713 Richard Fuller: And how much money personally have you taken out of this transaction?

Dominic Chappell: As I said to you, I will send a document to this panel as soon as practicably possible.

Q1714 Richard Fuller: What I have heard from you is that everybody else is to blame, you're not, and you have pocketed a significant amount of money but you are not prepared to share that information with us today.

Dominic Chappell: That is not the case. We fought tooth and nail for this company right up to the final hour. We did everything we possibly could to move it forward. We had a bad trading period, this ridiculous nonsense with the pension going back and forth and the trade credit insurance. Those three issues caused the major issue. We as Retail Acquisitions should have raised more money earlier on to protect our position. That was our mistake.

Q1715 Richard Fuller: On the day the company went into administration, we have heard from your managers that you told them you were having an eye operation.

Dominic Chappell: Yes.

Q1716 Richard Fuller: We have heard from others that you were having a business meeting. You were on your yacht on that date. Were you having an eye operation or were you having a business meeting?

Dominic Chappell: So, the situation regarding that was Duff & Phelps made it very clear that we were not required in the business after they took control, which they did on the Monday. I had a serious eye operation on the following Wednesday. I was in the Bahamas and I saw Primerica, the large fund that I had met at Christmas time when I was there, and one other private investor. I then flew up to Boston on Wednesday and had an eye procedure, and two days later I was up in Montreal and then Vancouver seeing three funders on the way through.

Q1717 Richard Fuller: You just told me that although it sounded to everyone that you regarded it as a property company, you said the people were important, but on the day when their livelihoods were put on the line, you were in the Bahamas.

Dominic Chappell: No, I wasn't. I went to see three—

Q1718 Richard Fuller: What sort of message did that send to people about capitalism?

Dominic Chappell: I know how you are side-showing this, but listen, I was in there trying everything we possible could to raise funds. I can give you a list of the people I saw and the dates I saw them. You can ring them up yourselves. We saw some very senior funds and tried to do everything we possibly could to save this company.

Q1719 Richard Fuller: Leaders should be on the ship. Captains should be on the bridge of their ship if it is going down. You were on another ship.

Dominic Chappell: No, no, no. We were not permitted to be on that site. Duff & Phelps made it very clear we were not allowed back in the building.

Chair: Richard, do you want a final word?

Richard Graham: I don't think there is much more.

Chair: Let's move on then. Jeremy, you wanted to finish.

Q1720 Jeremy Quin: I just want some clarification. Richard covered it, but I just want to be absolutely certain, for my understanding, that BHS Sweden is an independent company with no relationship with BHS.

Dominic Chappell: Not at all. We set up BHS Sweden and Lennart Henningson had a number of opportunities for BHS and the Nordic countries. We set it up and made it very clear on a number of occasions, including when I spoke to Darren Topp and said, "What about BHS Sweden?" It was held in trust and we just hadn't moved it into group—as simple as.

Q1721 Jeremy Quin: So who was the beneficiary of any funds that sit in BHS Sweden?

Dominic Chappell: BHS.

Q1722 Jeremy Quin: So it is part of the group.

Dominic Chappell: It wasn't blended in as part of the group, but it was always—

Q1723 Jeremy Quin: No, but at the time it existed—we have BHS going into administration—who were the beneficiaries of funds that were sitting in BHS Sweden?

Dominic Chappell: It was always assigned for BHS.

Q1724 Jeremy Quin: But who was the beneficiary?

Dominic Chappell: The beneficiary was BHS. They were the beneficial owner. We held—

Q1725 Jeremy Quin: But it wasn't part of BHS.

Dominic Chappell: I'm sorry, but there is a document that we held, "BHS Sweden for BHS". We just hadn't done the compliance of vending it into group. That was it. Simple.

Q1726 Jeremy Quin: Okay, so at the time that the funds were transferred, who were the beneficiaries?

Dominic Chappell: Lennart Henningson.

Q1727 Jeremy Quin: He was the sole director and sole shareholder.

Dominic Chappell: The sole director and sole shareholder.

Jeremy Quin: So he was the sole director and sole shareholder of BHS Sweden at the time that the £1.5 million was transferred.

Dominic Chappell: Yes, but he was holding BHS Sweden in trust for BHS.

Q1728 Jeremy Quin: Is there any documentation to show that it was in trust for BHS?

Dominic Chappell: Yes, there is.

Q1729 Frank Field: It is now part of Duff & Phelps's administration. They have taken control of it.

Dominic Chappell: I believe so, yes.

Q1730 Jeremy Quin: So £1.5 million was transferred over and £50,000 was left in BHS Sweden when the funds were transferred out, but you are telling me that since then BHS Sweden has been incorporated within the BHS group.

Dominic Chappell: I believe so; I don't know. There was an agreement between Lennart Henningson and Duff & Phelps regarding BHS Sweden coming back into group, or being—

Jeremy Quin: Not coming "back" into group; coming into group.

Dominic Chappell:—or being vended into group.

Q1731 Jeremy Quin: I appreciate your concern to make certain that people get paid, it's just that putting it into an entity outside of BHS seems a strange way of making certain that people get paid, if they were creditors to BHS.

Dominic Chappell: It was challenging times and we did challenging things.

Q1732 Craig Mackinlay: Briefly on the ACE loan, how did you come across this company?

Dominic Chappell: I have already made it very clear. Lennart Henningson had a working relationship with the Dellal family, dating back to Jack Dellal. He was an adviser to them and that's how I met Alex Dellal.

Q1733 Craig Mackinlay: I have done a little company search, and it is actually owned by Allied Commercial Holdings Ltd, of which the shareholders are Alexander Dellal, with 100,000 shares; Zehava Dellal, who has a very small number of shares; Guy Dellal, who I understand is the father, who has 633,000 shares—this is out of a million—and a company called Rockmoor Ltd, which is not a UK-registered company. Do you know anything about the ownership of that company?

Dominic Chappell: I'm sorry, but I know nothing at all about the ownership of the Allied Commercial group.

Q1734 Craig Mackinlay: Okay, thank you. Earlier, when you still thought this loan was a bit of a sideshow, you said that it was RAL's money that had been "earned" from BHS.

Dominic Chappell: Correct.

Q1735 Craig Mackinlay: Were any dividends declared from RAL to its shareholders—that is, predominantly yourself?

Dominic Chappell: No.

Craig Mackinlay: None at all?

Dominic Chappell: No.

Chair: A final word from Michelle.

Q1736 Michelle Thomson: Knowing what you know now, what would you do differently next time?

Dominic Chappell: The pension. It boils down to the pension. It is the pension side. We should have spent more time dealing with the pension prior to acquisition and we should have ensured that Philip was contractually bound to produce trade credit insurance for the company.

Q1737 Michelle Thomson: And, knowing what you know now, is there anybody you would like to apologise to?

Dominic Chappell: I am very upset that there are 11,000 people directly and a number of thousand people indirectly who have now lost their jobs. It is a travesty that that has happened, I am very upset that it has happened, and it was avoidable.

Q1738 Michelle Thomson: For the record, is that an apology?

Dominic Chappell: That is an apology.

Q1739 Chair: Is it your fault that BHS failed, then?

Dominic Chappell: As majority shareholder and owner of BHS, I must stand forward and say, “We were part of the downfall of BHS.”

Chair: Mr Chappell, you have answered questions for more than two hours. We are very grateful for your time; thank you very much.

Colleagues, Mr Topp has said that he would be willing to come back for five minutes, but he would also offer us the opportunity of a written submission. I think the latter is appropriate; I don’t know how colleagues feel about that. Thank you very much for that, Mr Topp.

Thank you very much again, Mr Chappell.