

TO ALL KNOWN CREDITORS

17 August 2018

Ref: R/CAL/SH/RK/JBL/PCF/D11.1

Direct line: +44 (0)207 760 9217

Email: hofadministrations@uk.ey.com

Dear Sirs

James Beattie Limited (in Administration) ('the Company')

On 10 August 2018 the Company entered Administration with A M Hudson, C A Lewis, C P Dempster and I appointed to act as Joint Administrators. The appointment was made by the Court under the provisions of paragraph 12 of Schedule B1 to the Insolvency Act 1986.

I write further to my appointment as Joint Administrator of the above Company and attach a copy of my Statement of Proposals in accordance with paragraph 49 of Schedule B1 to the Insolvency Act 1986.

As you will note from the proposals, there is no prospect of any funds becoming available to unsecured creditors other than by virtue of the Prescribed Part. As a consequence, I do not propose to seek a decision on approval of the proposals from creditors.

Creditors whose debts amount to at least 10% of the total debts of the Company may requisition a decision (either by a decision procedure or deemed consent procedure) on approval of the proposals if they deliver to me, within 8 business days of the date of delivery of these proposals, a request which fulfils the requirements of Rule 15.18 of the Insolvency (England and Wales) Rules 2016 (the Rules). In accordance with Rule 15.19 of the Rules, I may require a deposit as security for payment of the expenses associated with convening a decision procedure or deemed consent procedure and will not be obliged to initiate the procedure until I have received the required sum.

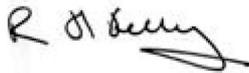
In the event that a decision is not requested by creditors under paragraph 52(2) of Schedule B1 to the Insolvency Act 1986, the proposals will be deemed to be accepted. The Joint Administrators' remuneration, Category 2 disbursements, and unpaid pre-Administration costs incurred with a view to the Company entering Administration will be agreed with the secured creditors and if applicable, the preferential creditors, in accordance with the provisions of Rule 18.18 and Rule 3.52 of the Insolvency (England and Wales) Rules 2016.

As the Joint Administrators propose to ask for their remuneration to be fixed on a time-cost basis, they are required to provide creditors with an estimate of the remuneration to be charged and details of expenses incurred and likely to be incurred. The information is attached at Appendix A to this letter.

If there are any matters concerning the Company's affairs which you consider may require investigation, and consequently should be brought to our attention, please forward the details to me in writing as soon as possible.

Should you have any queries relating to this letter or any other aspect of the Administration, please do not hesitate to contact my colleague, Joanie Snyman, on the above details.

Yours faithfully
for the Company



R H Kelly
Joint Administrator

Appendix A: Fee estimate and details of expenses
Enc: Joint Administrators' Statement of Proposals

The affairs, business and property of the Company are being managed by the Joint Administrators, A M Hudson, C P Dempster, C A Lewis and R H Kelly, who act as agents of the Company only and without personal liability.

A M Hudson is licensed in the United Kingdom to act as an insolvency practitioner by The Association of Chartered Certified Accountants. C P Dempster and R H Kelly are licensed in the United Kingdom to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland. C A Lewis is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in England and Wales.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy

Estimate of remuneration to be charged

The Joint Administrators are seeking approval for their remuneration to be fixed on a time cost basis. In accordance with Rule 18.16(4) of the Insolvency (England and Wales) Rules 2016, they set out below their estimate of remuneration to be charged.

The estimate of remuneration is £126,640.50 plus VAT. An explanation of how this sum has been arrived at is set out below and a breakdown of the expected costs is attached on the following pages.

Explanation of the work proposed to be undertaken

| Category of work | Description of work to be completed |
|------------------------------|---|
| Accounting & Administration | - Overall management of the case, treasury and accounting functions, statutory compliance diaries and time cost reporting. |
| Bank and Statutory Reporting | - Regular reporting to the Company's secured creditors. - Preparing the Joint Administrators' Statement of Proposals, six monthly progress reports and final report. |
| Creditors | - Receipt and recording of creditor claims. - Correspondence with creditors. - Processing distributions to the secured and preferential creditors (as applicable). |
| Employee Matters | - Writing to employees regarding TUPE related matters. - Dealing with any employee enquiries |
| Immediate Tasks | - Completion of work streams requiring immediate attention following appointment, in order to execute the strategy outlined in the Proposals. |
| Investigations | - Investigations into the Company's affairs in accordance with Statement of Insolvency Practice 2: "Investigations by Office Holders". - Making an online submission to the Director Conduct Reporting Service in accordance with the Company Directors Disqualification Act 1986. |
| Job Acceptance & Strategy | - Matters relating to the appointments and initial planning. |
| Legal Issues | - Dealing with any ad hoc legal issues which may arise in the Administration. |
| Other Assets | - Realising value from the Company's residual assets. - Assessing, quantifying and seeking to realise value from assets not recorded in the management accounts of the Company at the date of appointment. |
| Other Matters | - Matters relating to the sale of business and assets. - Recovery of the Company's books and records, and electronic records (including a back-up of company servers and systems). |
| Prescribed Part | - Calculating the Company's net property and Prescribed Part to be set aside, as appropriate. - Distributing the Prescribed Part to unsecured creditors. |
| Property | - Dealing with enquiries from the Company's landlord, which may arise following the transfer of the property as part of the sale |
| Public Relations | - Agreeing and issuing statements to the press as required, and dealing with enquiries from the media. |
| Statutory Duties | - Completion of statutory requirements of the Administration, including notifications to the creditors and members, advertising the appointment, letter to creditors pursuant to Statement of Insolvency Practice 16, and filing documents at Companies House. |
| VAT and Taxation | - Preparing corporation tax and VAT returns, with input from EY VAT and tax specialists. - Assessment of the VAT and tax treatment of transactions and agreements entered into during the Administration. - Preparing claims for VAT bad debt relief (if applicable). |

Estimate of the Joint Administrators' remuneration

| | Staff Grade | | | | | Total hours | Time costs (£) |
|--------------------------------|--------------------|------------------|------------------|------------------|------------------|--------------|-------------------|
| | Partner / Director | Senior Manager | Manager | Executive | Analyst | | |
| Accounting & Administration | 2.5 | 4.4 | 2.9 | 7.4 | 7.4 | 24.6 | 12,664.05 |
| Bank and Statutory Reporting | 3.7 | 6.6 | 4.4 | 11.0 | 11.0 | 36.7 | 18,996.08 |
| Creditors | 1.2 | 2.2 | 1.5 | 3.7 | 3.7 | 12.3 | 6,332.03 |
| Employees | 0.5 | 0.9 | 0.6 | 1.5 | 1.5 | 5.0 | 2,532.81 |
| Immediate Tasks | 0.5 | 0.9 | 0.6 | 1.5 | 1.5 | 5.0 | 2,532.81 |
| Investigations | 2.9 | 5.3 | 3.5 | 8.8 | 8.8 | 29.3 | 15,196.86 |
| Job Acceptance & Strategy | 0.5 | 0.9 | 0.6 | 1.5 | 1.5 | 5.0 | 2,532.81 |
| Legal Issues | 0.5 | 0.9 | 0.6 | 1.5 | 1.5 | 5.0 | 2,532.81 |
| Other Assets | 1.7 | 3.1 | 2.1 | 5.1 | 5.1 | 17.1 | 8,864.84 |
| Other Matters | 1.0 | 1.8 | 1.2 | 2.9 | 2.9 | 9.8 | 5,065.62 |
| Prescribed Part | 2.5 | 4.4 | 2.9 | 7.4 | 7.4 | 24.6 | 12,664.05 |
| Property | 2.0 | 3.5 | 2.4 | 5.9 | 5.9 | 19.7 | 10,131.24 |
| Public Relations | 0.2 | 0.4 | 0.3 | 0.7 | 0.7 | 2.3 | 1,266.41 |
| Statutory Duties | 2.9 | 5.3 | 3.5 | 8.8 | 8.8 | 29.3 | 15,196.86 |
| VAT & Tax | 2.0 | 3.5 | 2.4 | 5.9 | 5.9 | 19.7 | 10,131.24 |
| Total hours | 24.6 | 44.1 | 29.5 | 73.6 | 73.6 | 245.4 | |
| Time costs (£) | 25,357.50 | 32,634.00 | 16,464.00 | 30,502.50 | 21,682.50 | | 126,640.50 |
| Average hourly rate (£) | 1,031 | 740 | 558 | 414 | 295 | | 516 |

Details of expenses incurred and anticipated to be incurred

Expenses comprise sums paid or to be paid to third parties, and sums paid or payable to the Joint Administrators' firm in respect of out of pocket expenses and costs which include an element of shared or allocated costs. Expenses expected to be incurred are £27,280 plus VAT.

An explanation and breakdown of the various expenses is provided below.

Explanation of expenses expected to be incurred

| Category of expense | Description of expense incurred or to be incurred |
|------------------------------------|--|
| Property costs: transferring store | - Rent and associated property costs for the Company's store taken on by the purchaser of the business and assets. |
| Legal fees | - Legal advice regarding property matters and other such matters required to maximise realisations from the Company's estate |
| Insurance | - Costs to insure the Company's assets and operations during the Administration period. |
| Statutory costs | - Costs of completing statutory requirements of the Administration including advertising and filing costs. |
| Storage | - Costs to arrange collection and storage of the Company's books and records, for minimum periods required under legislation. |
| Bank charges | - Charges associated with the operation of the Company's bank accounts during the Administration |
| Corporation tax | - Corporation tax which may become payable following the preparation and submission of Corporation tax returns. It is currently too soon to provide an estimate in respect of these costs. |
| Specific Bond | - A required form of insurance in connection with the Administration. |
| Postage and printing | - Those costs incurred by the Joint Administrators in printing and posting the Joint Administrators' written communication to all relevant creditors and shareholders. |
| Travel and accommodation | - Those costs relating to travel and accommodation in connection with work on the Administration, whilst operating from or attending sites operated by the Company prior to Administration, and third party locations to attend meetings with key stakeholders. |
| Mileage | - Those costs relating to mileage incurred by the Joint Administrators and their staff in respect of their work on the Administration, whilst operating from or attending sites operated by the Company prior to Administration and third party locations to attend meetings with key stakeholders. - Current mileage rates are 45p/mile. |

Estimated Joint Administrators' expenses and disbursements

The table below summarises the Joint Administrators' current estimate of expenses and disbursements in this matter

| Payments which are not disbursements | £ |
|---|-------------------|
| Property costs: transferring store | <i>See note 1</i> |
| Legal fees | 15,000 |
| Insurance | 2,000 |
| Statutory costs | 2,000 |
| Storage | 2,000 |
| Bank charges | 500 |
| Corporation tax | TBC |
| | 21,500 |
| Category 1 disbursements (see notes 2 & 3) | |
| Specific penalty bond | 1,280 |
| Postage and printing | 2,000 |
| Travel and accommodation | 2,000 |
| | 5,280 |
| Category 2 disbursements (see notes 2 & 3) | |
| Mileage | 500 |
| | 500 |
| Total | 27,280 |

Notes

1. The property costs payable will depend on the duration that the purchaser of the Company's business and assets continues to occupy the store held by the Company under licence. It is envisaged that any costs paid in connection with the transferring store will be recovered from the purchaser.
2. Statement of Insolvency Practice 9 ('SIP 9') defines expenses as amounts properly payable from the insolvency estate which are not otherwise categorised as office holders' remuneration or distributions to creditors.
3. SIP 9 defines disbursements as a type of expense which is met by, and reimbursed to, an office holder in connection with an insolvency appointment. Disbursements fall into two categories: Category 1 and Category 2.
 - a. Category 1 disbursements are payments to independent third parties where there is specific expenditure directly referable to the appointment
 - b. Category 2 disbursements are expenses which are directly referable to the appointment but not a payment to an independent third party. They may include shared and allocated costs.

Exceeding estimates of remuneration and expenses

These estimates may be exceeded, in which case an explanation will be provided in the appropriate progress report. The Joint Administrators will only draw remuneration in excess of the estimate with the prior agreement of the approving body, in accordance with Rule 18.30 the Insolvency (England and Wales) Rules 2016.

Estimate of return for creditors

We currently estimate the following returns for creditors:

Secured creditors

We currently estimate that the Company's secured creditors will suffer a significant shortfall against their debt at the date of the Joint Administrators' appointment.

Preferential creditors

All of the Company's employees transferred to the purchaser as a result of the sale.

However, there may be certain preferential claims from former employees in respect of arrears of wages, holiday pay and payroll deductions.

It is currently too soon to quantify these claims.

Non-preferential creditors

It is currently estimated that unsecured non-preferential claims will be in the region of £39 million. This estimate is based on the Company's current books and records, and is likely to change as further claims are received.

It is currently too early to estimate the level of dividend which will eventually be available to non-preferential creditors; however, given the shortfall expected to be suffered by the secured creditors, we anticipate distributions to non-preferential creditors will be limited to funds set aside pursuant to the Prescribed Part.

James Beattie Limited (in Administration)

Administrators' statement of proposals

Pursuant to paragraph 49 of Schedule B1 to the
Insolvency Act 1986

Date of delivery of proposals to creditors: 17 August 2018

Abbreviations

The following abbreviations are used in this report:

| | |
|-------------|---|
| Act | The Insolvency Act 1986 |
| Banks | The Company's secured bank funders |
| Bondholders | The Company's secured loan note funders |
| C.banner | C.banner International Holdings Limited |
| Company | James Beattie Limited (in Administration) |
| CVA | Company Voluntary Arrangement |
| Group | House of Fraser (UK & Ireland) Limited and its subsidiaries |
| HOFL | House of Fraser Limited (in Administration) |
| HOFS | House of Fraser (Stores) Limited (in Administration) |
| HOF | House of Fraser (trading name) |
| Rothschild | N M Rothschild & Sons Limited |
| Rules | The Insolvency (England and Wales) Rules 2016 |

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1. Introduction, background and circumstances giving rise to the appointment

1.1 Introduction

On 10 August 2018 the Company entered Administration and Alan Michael Hudson, Robert Hunter Kelly, Craig Anthony Lewis and Colin Peter Dempster were appointed to act as Joint Administrators. This document, including its appendices, constitutes the Joint Administrators' statement of proposals to creditors pursuant to paragraph 49 of Schedule B1 to the Insolvency Act 1986 ('Act') and Rule 3.35 of the Insolvency (England and Wales) Rules 2016 ('Rules').

Certain statutory information relating to the Company and the appointment of the Joint Administrators is provided at Appendix A.

1.2 Background

The Company traded as House of Fraser ('HOF'), a premium fashion, home and beauty retailer which was founded in 1849. HOF operated 58 department stores in the United Kingdom and one in the Republic of Ireland, and is one of the largest traditional department store retailers in the UK.

The Company, House of Fraser (Stores) Limited ('HOFS') and House of Fraser Limited ('HOFL') were subsidiaries of House of Fraser (UK & Ireland) Limited involved in the trading of HOF.

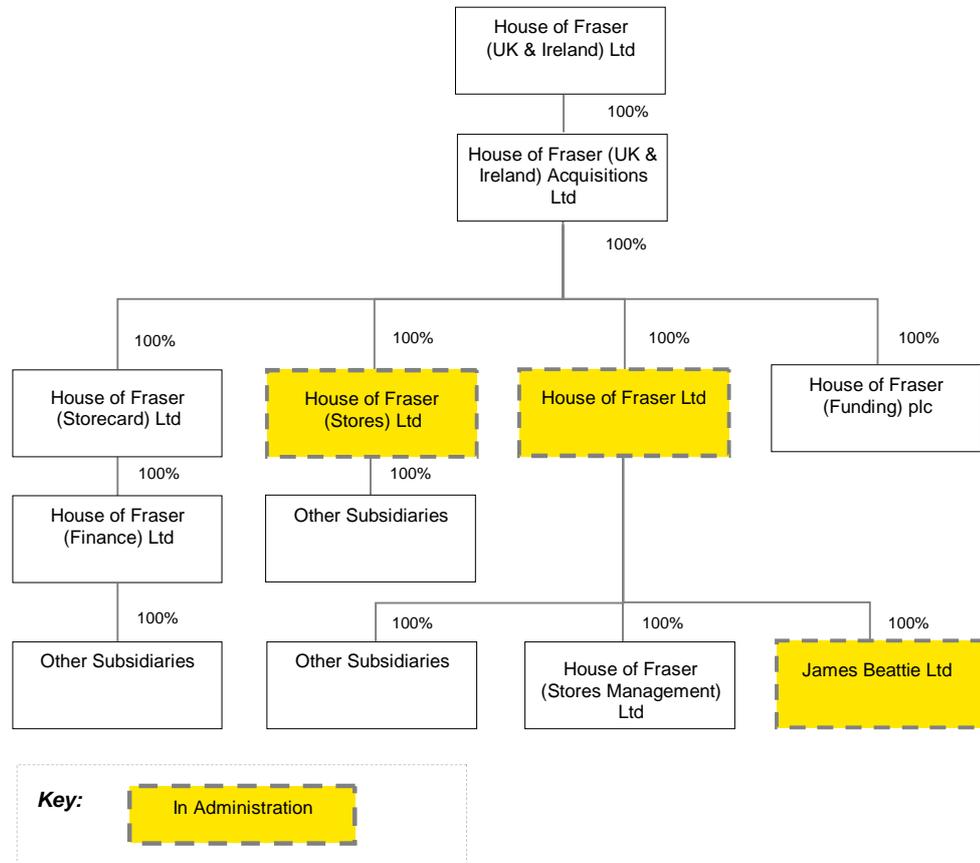
- HOFS was the Group's principal trading entity, and held the leases to 44 of the department stores and the majority of key contracts;
- HOFL held the leases to 14 of the HOF department stores, and sub-let them to HOFS; and
- the Company held the lease to one of the HOF department stores.

Based on the books and records available to us, HOFS and the Company employed approximately 5,872 people, as summarised below, in addition to c.10,100 concessions staff who were employed by various concessionaires in the stores.

| Company | Employees |
|----------------|------------------|
| HOFS | 5,747 |
| The Company | 125 |
| Total | 5,872 |

The Group was funded through a combination of a working capital facility, a revolving credit facility, a term loan, an overdraft and secured loan notes, totalling approximately £400 million.

A Group structure chart is presented below.



The recent financial results of the Group can be summarised as follows:

| Period (Year end: Jan) | Type Audited / Draft | Turnover (£m) | Gross Profit (£m) | Gross margin (%) | Directors' Remuneration (£m) | Profit / (loss) before tax (£m) | Total equity £m |
|------------------------------|----------------------------|------------------|-------------------------|------------------------|------------------------------------|--|--------------------|
| 5m to Jun 18 | Draft | 481.5 | 130.7 | 27% | - | (68.9) | 55.5 |
| FY17/18 | Draft | 779.8 | 445.6 | 57% | 1.7 | (0.7) | 130.1 |
| FY16/17 | Audited | 836.3 | 483.1 | 58% | 1.2 | 9.9 | 110.7 |
| FY15/16 | Audited | 826.6 | 484.1 | 59% | 0.8 | (20.2) | 73.5 |
| FY14/15 | Audited | 784.9 | 460.2 | 59% | 1.5 | (5.0) | 68.0 |

Sources: Audited financial statements – Companies House; Draft financial statements – company information
 Note: Financial information is taken from the financial statements of House of Fraser (UK & Ireland) Limited – the smallest group that consolidates the Group's financial statements

1.3 Circumstances giving rise to the appointment

1.3.1 Underlying trading performance

Over recent years, there has been significant pressure on revenue, gross margin and cash flow due to rapid changes in the fundamentals of UK retail, which has had a materially adverse impact on many aspects of traditional retailing.

Trading over the first 13 weeks of the financial year (to 28 April 2018) has been challenging for the Group, and this has been reflected in:

- a c. 7.7% decline in underlying like for like sales compared to the prior year;
- a c. £14.6 million reduction in gross profit compared to the same period in the prior year; and
- EBITDA losses had increased year on year to c. £31.4 million, principally driven by the decline in total sales.

The Group took a number of actions to attempt to address these issues including the negotiation of a shareholder equity injection of c. £50 million to fund working capital requirements, and the sale of certain obsolete trademarks for consideration of c. £25 million (received in March 2018).

However, these actions were unable to address the downturn in trading performance and the directors concluded that the business had reached a stage where it was no longer able to continue to meet its ongoing costs in its current format.

1.3.2 Business restructuring

In light of these challenges, the Group sought to restructure its business. In an attempt to recapitalise the business, the Group's directors and current majority shareholder (Cenbest Hong Kong Limited – part of the Sanpower Group) negotiated a conditional agreement through which C.banner International Holdings Limited ('C.banner') (a Hong Kong listed international retailer) would purchase a controlling stake in the Group in exchange for a £70 million cash injection.

The conditional agreement was subject to, amongst other things, the Group restructuring its store portfolio, which the Group sought to implement through a Company Voluntary Arrangement ('CVA') (see below).

This proposed restructuring comprised two overall elements: a CVA and a Scheme of Arrangement.

1.3.2.1 Company Voluntary Arrangements

The first element of the Restructuring was to comprise a rationalisation of the Group's leasehold estate.

On 6 June 2018 HOFL and HOFS filed proposals for CVAs. The proposals were considered to be central to the restructuring of the business required at that time.

The CVAs were voted on and passed by creditors and shareholders on 22 June 2018.

1.3.2.2 Scheme of Arrangement

The second element of the restructuring was the amendment of various existing finance agreements as entered into between the Group and its secured creditors

In July 2018, a Scheme of Arrangement proposed by HOFS was sanctioned by the Courts and became effective on 27 July 2018. Two of the purposes of the scheme were to:

- Permit up to £50 million of new financial indebtedness to be incurred and to be secured on a super senior basis. HOF subsequently entered into a £10m term loan facility on a super senior basis and used this to repay a £10m short term overdraft facility obtained from its lenders in May 2018.
- Facilitate the recapitalisation of the Group by permitting the change of control expected to occur as a result of C.banner's conditional agreement to acquire a 51% stake in House of Fraser Group Limited and inject approximately £70m via a placing.

At the end of July, it became clear that the proposed investment from C.banner would not be proceeding as planned.

1.3.2.3 Challenge to the CVAs

On 20 July 2018 the CVAs were challenged by certain of the Group's landlords.

In response to the news of the CVA challenge, C.banner (the proposed purchaser of the controlling stake in the Group) announced that it would delay issuing their shareholder circular (in respect of purchasing the 51% stake in the business and issuing a placement for £70m new equity) until 31 October 2018 in order to provide time for the Group to settle any further challenges to the CVAs that may arise.

Also, on 1 August 2018 C.banner's own share price declined markedly such that, according to a filing on the Hong Kong stock exchange, it would be "impracticable and inadvisable" to proceed with the proposed transaction.

In addition to seeking to negotiate a settlement to the CVA challenge; in late July, the Group and its advisors began looking at other options including: (i) bridging finance to the date C.banner could provide the £70 million; and (ii) a separate sale in order to rescue the business.

On 5 August 2018 the Group announced that both challenges to the CVAs had been settled.

1.3.3 Alternative options considered by the Group

It was estimated that, in order to continue to trade the Group, c. £40 million of additional funding would be required on or before 20 August 2018, increasing to c. £60 million to £70 million by 28 September 2018. This was to be funded by the C.banner transaction

As a result of the above, and the withdrawal of C.banner, the Group entered into discussions with potential investors in relation to the provision of alternative investment and liquidity solutions. The Group, advised by N M Rothschild & Sons Limited ('Rothschild'), a member of one of the world's largest independent financial advisory groups, began engaging with potential investors

With assistance from Rothschild, the Group commenced an accelerated marketing process to identify other potential investors. This, and the resulting press commentary, resulted in a number of expressions of interest in acquiring, or investing in, the Group.

There were a number of proposals from interested parties which had the potential to preserve the solvency of the Group (including the Company).

On 9 August 2018 the Group's cash flow position worsened further due to the actions of certain service providers, which meant that the Company, HOFs and HOFL would not have sufficient cash flow to continue to trade without the insolvency protection of an Administration Order.

At a meeting of the directors of the Company held on 9 August 2018, and following detailed consideration of the financial position of the Company, the directors resolved to immediately petition the Courts for Administration orders in respect of the Company.

1.3.4 Pre-Administration costs

Pre-Administration costs have been incurred by the Joint Administrators prior to the Company entering Administration.

The Joint Administrators are seeking approval for payment of unpaid pre-Administration costs totalling £6,120 (plus VAT) as an expense of the Administration.

Please refer to Section 6 of these proposals for further details.

2. Purpose, conduct and end of Administration

2.1 Purpose of the Administration

The purpose of an Administration is to achieve one of three objectives:

- a. to rescue the company as a going concern;
- b. to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in Administration); or
- c. to realise property in order to make a distribution to one or more secured or preferential creditors.

Insolvency legislation provides that objective (a) should be pursued unless it is not reasonably practicable to do so or if objective (b) would achieve a better result for the company's creditors as a whole. Objective (c) may only be pursued if it is not reasonably practicable to achieve either objective (a) or (b) and can be pursued without unnecessarily harming the interests of the creditors of the company as a whole.

It was not deemed possible to rescue the Company as a going concern without a solvent offer for the business or alternative funding being made available. Neither were forthcoming in a format that was deliverable in the timescales available.

Consequently, objective b) is being achieved through the completion of a sale of substantially all of the Company's business and assets.

The sale of the Company's business enables this objective to be achieved through delivering a better outcome to creditors than would have been achieved through a liquidation sale of assets. The outcome achieved through the sale was the best available outcome for creditors as a whole in all the circumstances.

Further information relating to the sale transaction is provided at Section 2.2 below, and at Appendix B.

2.2 Conduct of the Administration

2.2.1 Sale of the business and assets

On 10 August 2018 the Joint Administrators completed a sale of substantially all of the Company's business and assets to the entities listed below, which are part of the Sports Direct group, as part of a transaction with total consideration of £90 million:

- SDI (Propco 35) Limited;
- Shelfco A2 Limited; and
- Shelfco A1 Limited.

The transaction also impacts on HOFS and HOFL, related entities which also entered Administration on 10 August 2018.

A detailed explanation of the transaction was sent to creditors on the same date as these proposals, and is also attached at Appendix B to these proposals.

2.2.2 Principal benefits of the transaction

The principal benefits of the transaction can be summarised as follows:

- the transaction resulted in all of the Group's employees (other than those at the store in Dundrum, Republic of Ireland) transferring to the purchaser, thereby mitigating the level of preferential claims against the Company;
- the transaction ensured the continued operation of all of the Group's store network;
- the transaction generated enhanced returns to creditors compared to alternative available options;
- the structure of the transaction affords the purchaser and relevant landlords the opportunity to enter into longer term agreements for continued occupation of the transferred stores and, if achieved, this will act to mitigate the level of landlord unsecured claims against the Company; and
- the sale also allows for continued trading and the potential for agreement with the concessionaires, which may limit claims against the Company for damages.

Note: the Dundrum (Republic of Ireland) store employees will transfer to the purchaser upon receiving appropriate regulatory approvals in the Republic of Ireland.

2.2.3 Significant assets not included in the sale agreement

The assets which we are aware of, excluded from the transaction include:

- rent prepayments (to be recovered from the purchaser, as appropriate);
- any business rates refunds due to the Company;
- cash in the Company's bank accounts at the date of appointment;
- cash in transit at the date of appointment; and
- any other trading debtors & prepayments.

2.2.4 Property overview

At the date of the appointment, the Company, HOFS and HOFL operated from 64 locations, all of which were occupied under leasehold arrangements. This included 59 trading stores, three office locations and two warehousing facilities.

The Company held the lease to one trading store.

As part of the sale, a licence to occupy the Company's leasehold premises has been granted to the purchaser.

2.2.5 Joint Administrators' receipts and payments

A summary of the Administrators' receipts and payments for the period from 10 August 2018 to 15 August 2018 is attached at Appendix C.

2.2.6 Approval of the Joint Administrators' proposals

The Joint Administrators are of the opinion that the Company has insufficient property to enable a distribution to be made to unsecured creditors other than by virtue of the Prescribed Part and consequently, in accordance with the provisions of paragraph 52(1)(b) of Schedule B1 to the Act, they do not intend to seek a decision of the creditors on the approval of the proposals.

The Joint Administrators will be obliged to seek a decision of the creditors if requested to do so by creditors of the Company whose debts amount to at least 10% of the total debts of the Company. The request must be delivered within 8 business days of the date on which these proposals are delivered to creditors (or such longer period as the court may allow) and must include the information required by Rule 15.18 of the Rules.

In accordance with Rule 15.19 of the Rules, the Joint Administrators may require a deposit as security for payment of the expenses associated with convening a decision procedure or deemed consent procedure and will not be obliged to initiate the procedure until they have received the required sum.

2.2.7 Future conduct of the Administration

The Joint Administrators will continue to deal with the Administration in line with the stated objective, namely to achieve a better result for the Company's creditors as a whole than would be likely if the Company was wound up (without first being in Administration).

Future tasks will include, but may not be limited to, the following:

- investigating the extent of any other assets held by the Company, excluded from the sale of business and assets, and taking steps to realise them;
- liaising with the Company's bank and merchant services providers to secure the release of cash held in pre-appointment bank accounts and cash in transit;
- dealing with landlords, leasehold properties, the payment of rent and service charges, in connection with the licence to occupy;
- facilitating the assignment of leases to the purchaser;
- assisting with the assignment of trading contracts to the purchaser;
- distributing amounts to the secured and preferential creditors (as applicable);
- agreeing unsecured creditor claims and distributing the Prescribed Part (as applicable);
- if the Joint Administrators deem it appropriate, to seek an extension and/or further extensions to the Administration from the Company's creditors and/or the Court.
- review and conclude the tax affairs of the Company (as appropriate);
- dealing with unsecured creditor queries;
- dealing with statutory reporting and compliance obligations;
- considering the conduct of the Company's directors;
- finalising the Administration including payment of all Administration liabilities; and

- any other actions required to be undertaken by the Joint Administrators in order to fulfil the purpose of the Administration.

2.2.8 The end of the Administration

It is proposed that if, at the end of the Administration, the Company has no property which might permit a distribution to its creditors; the Joint Administrators will send a notice to that effect to the Registrar of Companies. On registration of the notice, the Joint Administrators' appointment in respect of the Company will come to an end. In accordance with the provisions of paragraph 84(6) of Schedule B1 to the Act the Company will be deemed to be dissolved three months after the registration of the notice.

3. Statement of affairs

The directors have not yet submitted a Statement of Affairs, given the limited time which has passed since the Joint Administrators' appointment.

Notices requiring the submission of Statement of Affairs for the Company were issued to all current directors of the Company on 15 August 2018, with a requirement to submit the Statement of Affairs within 11 days of receipt of the notice (being a period which has not yet expired).

In the absence of a Statement of Affairs, based on the Company's books and records, we attach at Appendix D:

- an estimate of the financial position of the Company as at 23 June 2018, being the latest financial information available at this time; and
- a current list of creditors including, as far as is currently known, their names, addresses, amounts owed and details of any security held.

We provide below, for information, an indication of the current position with regard to creditors' claims. The figures have been compiled based on the Company's books and records and have not been subject to independent review or statutory audit.

3.1 Secured creditors

The Group's secured funding broadly falls into two categories

1. super senior secured working capital facility, senior secured revolving credit facility, senior overdraft and senior secured term loan lenders ('Banks'); and
2. holders of senior secured floating rate notes, due 2020 ('Bondholders').

The senior secured revolving credit facility, senior secured term loan and senior secured floating rate notes are all subordinate to the super senior secured working capital facility.

The table below summarises the facilities provided:

| | |
|-------------------------|--------------|
| Super senior facilities | 10.0 |
| Senior facilities | 225.0 |
| Bondholders | 165.0 |
| | 400.0 |

Other than the super senior facility, which has priority ranking, the senior facilities and bondholders indebtedness ranks pari passu.

Please note that the confirmed indebtedness at the date of the Joint Administrators' appointment, in particular the usage of the senior revolving credit facility and any post appointment interest and charges, is still subject to confirmation.

3.2 Preferential creditors

All of the Company's employees transferred to the purchaser as a result of the sale.

However, there may be certain preferential claims from former employees in respect of arrears of wages, holiday pay and payroll deductions.

It is currently too soon to quantify these claims.

3.3 Non-preferential creditors

The Joint Administrators continue to receive claims from unsecured non-preferential creditors of the Company.

It is currently estimated that unsecured non-preferential claims will be in the region of £39 million.

This is based on the Company's current books and records, and is likely to change as further claims are received.

4. Prescribed Part

The Prescribed Part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Insolvency Act. The Prescribed Part applies to floating charges created on or after 15 September 2003.

The Joint Administrators currently estimate, to the best of their knowledge and belief, that:

- the value of the Company's net property is c. £0.4 million; and
- the value of the Prescribed Part is c. £0.1 million.

Note: the above estimate of net property is subject to confirmation of preferential creditor claims in this matter, which are not yet known.

The Joint Administrators do not intend to make an application to the court under section 176A(5) of the Act for an order not to distribute the Prescribed Part.

5. Joint Administrators' remuneration and disbursements

5.1 Remuneration

The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Rules. Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the web site of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides> or is available in hard copy upon written request to the Joint Administrators.

In the event that a creditors' decision is not requested, and a creditors' committee is not formed; the Joint Administrators will seek to have their remuneration fixed by the secured creditors and, if applicable, the preferential creditors, in accordance with Rule 18.18(4) of the Rules. The Joint Administrators will ask for their remuneration to be fixed on the basis of time properly given by them and their staff in dealing with matters arising in the Administration, in accordance with the fee estimate dated 17 August 2018 which is being circulated to creditors at the same time as these proposals.

As discussed earlier in the proposals, substantially all of the Company's assets were sold as part of the sale of business and assets.

5.2 Disbursements

Disbursements are expenses met by and reimbursed to the Joint Administrators. They fall into two categories: Category 1 and Category 2. The fee estimate and statement of expenses dated 17 August 2018 includes details of the Category 1 and 2 disbursements which are expected to be incurred.

Category 1 disbursements are payments to independent third parties where there is expenditure directly referable to the Administration. Category 1 disbursements can be drawn without prior approval.

Category 2 disbursements are expenses that are directly referable to the Administration but not to a payment to an independent third party. They may include an element of shared or allocated costs that can be allocated to the appointment on a proper and reasonable basis. Category 2 disbursements require approval in the same manner as remuneration. In the event that a creditors' decision is not requested and a creditors' committee is not formed, the Joint Administrators will seek the approval of the secured creditors and, if applicable, the preferential creditors, to charge Category 2 disbursements in accordance with the statement of expenses included in the fee estimate dated 17 August 2018.

6. Pre-Administration costs

The Administrators are seeking approval for payment of unpaid pre-Administration costs totalling £6,120 (plus VAT).

The payment of unpaid pre-Administration costs as an expense of the Administration is subject to approval under Rule 3.52 of the Rules, and not part of the proposals subject to approval under paragraph 53 of Schedule B1 to the Act. This means that they must be approved separately from the proposals.

A breakdown of the total pre-Administration costs incurred and amounts paid pre-Administration (if any) is attached at Appendix E. Further information is provided below.

This work commenced on 30 July 2018, and was carried out under an engagement agreement between Ernst & Young LLP and certain of the Banks dated 3 August 2018.

The nature of the pre-Administration work conducted can be summarised as follows:

- contingency planning in order that one or more insolvency officeholders from EY would be in a state of reasonable preparedness to accept formal insolvency appointments to one or more Group companies in the event that an insolvency filing became unavoidable;
- negotiating and delivering the sale (as detailed at Appendix B); and
- planning for the period immediately post-Administration in order to deal with all matters effectively.

The costs in connection with this work total £7,551 (plus VAT), against which £nil has been paid to date.

The Joint Administrators are seeking approval to payment of £6,120 (plus VAT) against these costs.

The breakdown attached at Appendix E sets out:

- the fees charged by the Joint Administrators
- the expenses incurred by the Joint Administrators
- the fees charged (to the Joint Administrators' knowledge) by any other person qualified to act as an insolvency practitioner (and if more than one, by each separately); and
- the expenses incurred (to the Joint Administrators' knowledge) by any other person qualified to act as an insolvency practitioner (and if more than one, by each separately).

In the event that a creditors' meeting is not requisitioned and a creditors' committee is not formed, the Joint Administrators will seek to have the unpaid pre-Administration costs approved by the secured creditors and, if applicable, the preferential creditors.

Appendix A Statutory information

Company information

| | |
|----------------------------|--|
| Company Name: | James Beattie Limited |
| Registered Office Address: | 27 Baker Street, London, W1U 8AH |
| Registered Number: | 00176533 |
| Trading Name: | House of Fraser, Frasers, Jenners |
| Trading Addresses: | 27 Baker Street, London, W1U 8AH (head office) |

Details of the Administrators and of their appointment

| | |
|----------------------|---|
| Administrators: | A M Hudson, R H Kelly, C P Dempster and C A Lewis |
| Date of Appointment: | 10 August 2018 |
| By Whom Appointed: | The appointment was made by the Court |
| Court Reference: | The High Court of Justice, Chancery Division, Business and Property Courts of England and Wales, CR-2018-006625 |

Any of the functions to be performed or powers exercisable by the Administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting jointly.

Statement concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does apply to this Administration and the proceedings are main proceedings. This means that this Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Union Member State.

Share capital

| Shareholder | Class | Authorised | | Issued & Fully paid | |
|-------------------------|----------|------------|------------|---------------------|------------|
| | | Number | £ | Number | £ |
| House of Fraser Limited | Ordinary | 41,003,218 | 10,250,805 | 41,003,218 | 10,250,805 |

Directors and secretary and their shareholdings

| Name | Director or Secretary | Date appointed | Date resigned | Current shareholding |
|-------------------|-----------------------|---------------------------------|---------------|----------------------|
| Peter G Hearsey | Director Secretary | 23 April 2017 31 August 2015 | N/A N/A | N/A N/A |
| Alex P Williamson | Director | 20 Sep 2017 | N/A | N/A |
| Fei-Er Cheng | Director | 30 July 2018 | N/A | N/A |
| Yong Shen | Director | 30 July 2018 | N/A | N/A |
| Colin D Elliot | Director | 1 May 2015 | 9 August 2018 | N/A |
| Nigel Oddy | Director | 1 March 2015 | 23 April 2017 | N/A |

Appendix B Detailed explanation of the transaction



Ernst & Young LLP Tel: + 44 20 7951 2000
1 More London Place Fax: + 44 20 7951 1345
London ey.com
SE1 2AF

TO ALL KNOWN CREDITORS

17 August 2018

Ref: R/CAL/SH/RRKJL/PCF

Direct line: +44 (0)207 786 0217
Email: hofadministrations@uk.ey.com

Dear Sirs

James Beattie Limited (in Administration) ('the Company')

Trading names: House of Fraser, Frasers, Jenners

Principal trading address: 27 Baker Street, London, W1U 8AH

On 10 August 2018 the Company entered Administration and Alan Hudson, Craig Lewis, Colin Dempster and I were appointed as Joint Administrators. The appointments were made by the Court under the provisions of paragraph 12 of Schedule B1 to the Insolvency Act 1986.

I enclose a notice of the appointment, for your information.

As licensed insolvency practitioners, we are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the Administration.

Sale of the business

On 10 August 2018 we completed a sale of substantially all of the Company's business and assets to the entities listed below, which are part of the Sports Direct group, as part of a transaction with total consideration of £90 million:

- SDI (Propco 35) Limited;
- Shelfco A2 Limited; and
- Shelfco A1 Limited.

The transaction also impacts on House of Fraser Limited ('HOFL') and House of Fraser (Stores) Limited ('HOFS'), related entities which also entered Administration on 10 August 2018. The creditors of HOFL and HOFS have been written to under separate cover.

In accordance with Statement of Insolvency Practice 16, a detailed explanation of the transaction is set out below.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London, SE1 2AF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorized and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/enh/insolvency>.



Background

The Company traded as House of Fraser ('HOF'), a premium fashion, home and beauty retailer which was founded in 1849. HOF operates 58 department stores in the United Kingdom and one in the Republic of Ireland.

The Company, HOFL and HOFS were the subsidiaries of House of Fraser (UK & Ireland) Limited (together with its subsidiaries, 'the Group'), involved in the trading of HOF. Specifically:

- HOFS was the Group's principal trading entity and held the leases to 44 of the department stores;
- HOFL held the leases to 14 of the HOF department stores, and sub-let them to HOFS; and
- the Company held the lease to one of the HOF department stores.

Based on the books and records available to us, HOFS and the Company employed approximately 5,872 people, as summarised below, in addition to c.10,100 concessions staff who were employed by various concessionaires in the stores.

| Company | Employees |
|--------------|--------------|
| HOFS | 5,747 |
| The Company | 125 |
| Total | 5,872 |

The Group was funded through a combination of a working capital facility, a revolving credit facility, a term loan, an overdraft and secured loan notes, totalling approximately £400 million. In addition, the Group's majority shareholder (Cenbest Hong Kong Limited) has provided additional funding support.

Financial position

The financial position of the Group had deteriorated significantly over the last 12 months. Draft accounts for the year to 27 January 2018 indicated that the Group made a loss before taxation of £4.1 million, and suffered a "net cash outflow" of £65 million in that year (which included the one-off sale of certain obsolete trademarks for consideration of c. £25 million)

During the 13 weeks to 28 April 2018 the Group's turnover declined by 7.7% in comparison with the same period in 2017 (the Group's gross profit for that period was £14.6 million lower than that for the same period in 2017), and the decline in EBITDA in the first quarter also increased year on year, to negative £31.4 million, principally driven by the decline in total sales.



In light of these challenges, the Group sought to restructure its business. This comprised two overall elements:

a) Company Voluntary Arrangements

The first element of the Restructuring was to comprise a rationalisation of the Group's leasehold estate.

On 6 June 2018 HOFL and HOFS filed proposals for Company Voluntary Arrangements ('CVAs'). The proposals were considered to be central to the restructuring of the business required at that time. The proposal of the CVAs was made with the intention of securing investment from C.banner International Holdings Limited ('C.banner'). Agreement had been reached for C.banner to acquire a 51% stake in House of Fraser Group Limited, with an intention to introduce significant new capital; conditional on, amongst other things, HOF restructuring its store portfolio.

The CVAs were subsequently challenged by a group of its landlords, however these challenges were settled.

b) Scheme of Arrangement

The second element of the restructuring was the amendment of various existing finance agreements as entered into between the Group and its secured creditors

In July 2018, a Scheme of Arrangement proposed by HOFS was sanctioned by the Courts and became effective on 27 July 2018. Three of the purposes of the scheme were to:

- permit up to £50 million of new financial indebtedness to be incurred and to be secured on a super senior basis. HOF subsequently entered into a £10m term loan facility on a super senior basis and used this to repay a £10m short term overdraft facility obtained from its lenders in May 2018;
- facilitate the solvent recapitalisation of the group by permitting the change of control expected to occur as a result of C.banner's conditional agreement to acquire a 51% stake in House of Fraser Group Limited and inject approximately £70m via a placing; and
- extend the maturity dates of senior facilities and notes to 30 October 2020.

However, at the end of July 2018, it became clear that the proposed investment from C.banner would not be proceeding as planned; with an announcement made by C.banner in Hong Kong on 26 July 2018, notifying of a delay in the despatch of its shareholder circular in relation to the transaction.

Also, on 1 August 2018 C.banner's own share price declined markedly such that, according to a filing on the Hong Kong stock exchange, it would be "impracticable and inadvisable" to proceed with the proposed transaction.



It was estimated that, in order to continue to trade the Group, c. £40 million of additional funding would be required on or before 20 August 2018 increasing to c. £60 million to £70 million by 28 September 2018. This was previously to have been funded by the C.banner transaction. As a result, from Friday 27 July 2018 the Group entered into urgent discussions with potential investors in relation to the provision of alternative investment and liquidity solutions, advised by Rothschild who also began engaging with potential investors as part of an Accelerated marketing process (further details provided in the "Pre-appointment considerations" section below). This, and the resulting press commentary, resulted in a number of expressions of interest in acquiring or investing in the Group.

There were a number of proposals from interested parties which, subject to significant write down and restructuring of certain financial obligations, had the potential to preserve the solvency of the Group (including the Company).

On 9 August 2018, with no solvent solution in place and the Group's cash flow position further worsened due to the actions of certain service providers, which meant that the Company, HOF1 and HOF2, absent an immediate transaction that maintained solvency and injected significant funds, would not have sufficient cash flow to continue to trade without the insolvency protection of an Administration Order.

At a meeting of the directors of the Company held on 9 August 2018, following detailed consideration of the financial position of the Company, the nature of the remaining interest from parties and the absence of a transaction for a solvent rescue of the Group being in place or capable of implementation in short order, the directors concluded there was no longer a reasonable prospect of avoiding insolvency, and resolved to immediately petition the Courts for an Administration order in respect of the Company.

As a result of the combination of these events the proposed Administrators entered into negotiations with the parties whose offers were furthest advanced and did not require any further due diligence. This was with a view to agreeing a transaction that would provide a better outcome for creditors than trading the business in Administration and seeking further offers, or winding it down over the next few weeks (see "Comparison of offers received" section below for further information).

During the course of the discussions, various offers were withdrawn leaving only one offer capable of being progressed.

Initial introduction to the Company

We were introduced to the Group by HSBC Bank plc and International and Commercial Bank of China Limited, London Branch (jointly, 'the Lenders') in September 2017.



We were instructed to carry out the following work in connection with the Group, of which the Company is a member, prior to the appointment of Administrators:

| Date | Description of work |
|----------------|--|
| September 2017 | Review of the Group's short term liquidity position. |
| 28 March 2018 | To assist the Lenders in assessing the wider financial position and the future prospects of the Group in respect of their exposure to the Group. |
| 5 April 2018 | Initial review of options available to Lenders, which included an analysis of the risks and potential strategies that could be implemented. |
| | Preparation of a discussion document in respect of a company voluntary arrangement ("CVA") feasibility study prepared by KPMG (the Group's advisors). |
| 24 May 2018 | Analysis of the Group's "Transformation Plan" and associated financial forecasts which included understanding key drivers of the plan. |
| 11 June 2018 | Contingency planning work and the assessment of potential options for the Lenders, including an analysis of potential options available to the Group in the event that the CVAs failed. |
| 19 June 2018 | Analysis of the Group's updated Transformation Plan and covenant model in order to support the Lenders in their discussions with the Group in relation to potential facility amendments associated with C.banner providing new funding. |
| 30 July 2018 | Following concerns over the likelihood of C.banner's investment, further contingency planning in order that one or more insolvency officeholders from EY would be in a state of reasonable preparedness to accept formal insolvency appointments to one or more Group companies in the event that an insolvency filing became unavoidable. |

Pre-appointment considerations

The Group commenced a detailed, but accelerated marketing process to identify other potential investors on 2 August 2018. The Group was advised by N M Rothschild & Sons Limited ("Rothschild"), a member of one of the world's largest independent financial advisory groups.

Rothschild invited offers for the HOF business in the form of:

- an acquisition of the Group;
- other new money investment in the Group; or
- an acquisition of the whole or part of the Group's assets or business.

A summary of the process undertaken by Rothschild is provided below:

- initial discussions with an identified list of approximately 48 potentially interested parties were held from 2 August 2018 onwards, including parties from the UK and overseas;
- potentially interested parties identified included both trade parties and specialist financial investors;



- a process letter was issued to potentially interested parties from 3 August 2018 onwards;
- non-disclosure agreements were signed with approximately 15 interested parties, each of which was given access to a virtual data room containing information about the Group, its business, assets and liabilities; and
- interested parties were asked to provide confirmation of their interest along with initial commercial proposals for any acquisition by 9:00 pm (London time) on 5 August 2018. This accelerated timetable was necessary due to the deteriorating liquidity position of the Group.

It should also be noted that there was significant press coverage in respect of the Group's position.

Six parties made formal offers (some outside of the initial 5 August 2018 deadline). These offers were assessed using a number of criteria, including value, timing and deliverability. Further details of the offers received is provided in the "Comparison of offers" section below).

Two of these offers were discounted as they did not provide a complete solution and the conditions attaching to them would have been difficult to achieve, particularly in the timescales available.

A third offer was also discounted due to the time period required to conduct due diligence being too long.

During the course of 9 August 2018 a fourth offer, which involved acquiring the secured debt, was discounted as it became apparent that there were considerable risks to it being concluded before the Group had to file for insolvency protection. It was also not clear what additional funding this would provide to the Group to avoid formal insolvency.

All of the above offers were evaluated and assessed as generating a lower recovery for creditors than from the various offers made by the remaining two parties as set out below.

One of the two parties had made an offer to acquire the Group on a solvent basis for £1. However, this was conditional upon reaching an agreement with the Group's secured lenders to write off the vast majority of their loans, allow their priority ranking to be diluted and with the repayment of the remaining balance of their loans to be on deferred terms. Negotiations on the terms continued between this party and the secured lenders during the course of week commencing 6 August 2018, with the terms and structure of the offer changing to allow for some immediate cash payment but this was to be at the expense of writing off additional amounts of the first ranking secured loans with a substantial proportion of any repayment being conditional upon future trading performance improving significantly beyond the current levels, and thus was inherently uncertain. As a result, the offer was asking the secured creditors to write off their loans beyond the value of the assets the loans were secured on.

As these discussions continued this party also proposed an offer to acquire the business and assets from an insolvency sale at a price of £100 million (see below). As a result an Asset Purchase Agreement was issued to this party on Thursday 9 August 2018 on the basis of acquiring the business and assets on an insolvent basis. However, during the evening of the 9 August 2018 the party communicated that they could not justify the transaction commercially and they were withdrawing their interest.

This then left the Sports Direct group offer as the best and only offer capable of being completed.



Comparison of offers received

The table below summarises the final offers which were received from each of the parties who submitted an offer / more than one offer during the sales process. Corresponding notes provided in respect of each party.

| Party | Offer | Note |
|---------------------|--|------|
| Sports Direct group | £90.0 million | 1 |
| Party B | £100.0 million (subsequently withdrawn) | 2 |
| Party C | c.£40 million (plus potential for a further c.£40 million) | 3 |
| Party D | Est. £49 million | 4 |
| Party E | Funding of up to £40m on a super priority basis | 5 |
| Party F | £20 million of funding to support a transaction | 6 |

| | |
|--------|--|
| Note 1 | <p>Cash purchase of business and assets of HOFL, HOFS and the Company via Administration.</p> <p>The offer accepted was considered to represent a significantly better outcome than was likely from alternative approaches. The terms of the offer agreed were considered acceptable when benchmarked against the various previous offers that had been received during the marketing process, as well as against the likely outcome from a period of trading the Company (along with HOFL and HOFS) in Administration whilst seeking buyers (see "Alternative options considered" section below).</p> |
| Note 2 | <p>Cash purchase of business and assets of HOFL, HOFS and the Company via Administration.</p> <p>Offer presented on the morning of 9 August 2018, and on the same basis as the offer received from Sports Direct group. However, this offer was withdrawn at c.9pm (London time) on 9 August 2018.</p> |
| Note 3 | <p>Considerable uncertainty on whether they would complete as their original offer has been substantially varied during 9 August.</p> |
| Note 4 | <p>This offer was subject to due diligence that was estimated to take a further two weeks, and thus the offer was not deliverable in the timescales available.</p> |



- Note 5 This would not have provided sufficient funding on its own and the terms were not acceptable to the existing secured lenders.
- Note 6 This would not have provided sufficient funding on its own and the other parties appeared to have sufficient financial resources of their own to complete their proposed transactions.

Alternative options considered

Alternative options were considered when assessing the final offer received, in particular a period of trading the Company (along with HOFL and HOF5) in Administration. However, we formed the opinion that it was not appropriate to trade the business and offer it for sale as a going concern during Administration because:

- Trading in Administration would be subject to a number of significant risks. Including, but not limited to:
 - securing ongoing support of key trading suppliers and merchant services providers, on acceptable terms;
 - potential ransom demands in connection with the above;
 - securing ongoing support from concessions trading within stores;
 - incurring further losses and depletion of stock values;
 - erosion of brand value;
 - loss of employees; and
 - additional professional fees incurred.

These factors were considered to adversely impact on the value realised for the benefit of creditors and we concluded more likely to result in a significantly lower recovery for creditors as compared to the offer received, with minimal if any likelihood of an improved outcome .

It was therefore considered to be in the best interests of creditors for the business and assets to be sold via the sale, in order to maximise asset values and reduce costs.

Furthermore, given a well-publicised marketing process had already been undertaken, it was not anticipated that continuing to trade the business in Administration would generate enhanced returns from a subsequent sale .

As a consequence, following our appointment as Joint Administrators at approximately 8am on 10 August 2018, we continued to negotiate with the Sports Direct group and sold substantially all of the Company's business and assets to companies in the Sports Direct Group at approximately 9am .



Whilst the agreement includes the sale of the HOF store at Dundrum (Northern Ireland); the transfer of this store is dependent upon receiving appropriate regulatory approvals in the Republic of Ireland.

Consultation with major creditors

The Lenders were consulted throughout the process, along with certain known secured bond holders. Each of these parties also positively consented to the transaction.

Given the accelerated timescales and the shift to only being insolvent options on the night of 9 August 2018 there was no option to consult with wider creditors of the Company. Albeit, given that insolvency was inevitable on 10 August 2018, any variations in the economic outcome to creditors was only going to impact upon the secured creditors. In addition, a large number of creditors, including suppliers, concession partners, landlords and the pension schemes, were aware of the financial position from being involved in earlier discussions with regard to the Company Voluntary Arrangements, debt reorganisation and the need for the £70m shareholder injection. As a result, they would have been aware that following the announcement that the C.banner transaction would not proceed insolvency was a potential outcome.

Registered charges

The Company has the following registered charges:

| Date of creation of charge | Date of registration of charge | Details of charge | Name of charge holder |
|----------------------------|--------------------------------|--------------------------|---|
| 5 August 2015 | 12 August 2015 | Bond and floating charge | HSBC Corporate Trustee Company (UK) Limited (as security agent) |
| 27 July 2018 | 27 July 2018 | Bond and floating charge | HSBC Corporate Trustee Company (UK) Limited (as security agent) |

Statutory purpose of administration

The purpose of an Administration is to achieve one of three objectives:

- a) to rescue the company as a going concern;
- b) to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in Administration); or
- c) to realise property in order to make a distribution to one or more secured or preferential creditors.

It was not deemed possible to rescue the Company as a going concern without a solvent offer for the business or alternative funding being made available. Neither were forthcoming in a format that was deliverable in the timescales available.



Consequently, objective b) is being achieved through the completion of a sale of substantially all of the Company's business and assets.

The sale of the Company's business enables this objective to be achieved through delivering a better outcome to creditors than would have been achieved through a liquidation sale of assets. The outcome achieved through the sale was the best available outcome for creditors as a whole in the circumstances.

Marketing of the business and assets

As noted above, an accelerated marketing process was undertaken by the Group with assistance from Rothschild.

Furthermore, given the situation was widely publicised in the press, we consider that the process was widely known to potentially interested parties.

We are of the opinion that the marketing process undertaken complied with the 'Marketing Essentials' set out in Statement of Insolvency Practice 16.

Valuation of the business and assets

A valuation of the business and assets was not obtained prior to the transaction.

Given the marketing process that was undertaken by the Group prior to the transaction, we are satisfied that the market has been tested and that market value for the business and assets has been obtained.

The transaction

As previously stated, the sale was completed on 10 August 2018. Further details of the transaction are given below;

The purchaser and related parties

The purchaser is SDI (Propco 35) Limited, Shelfco A2 Limited and Shelfco A1 Limited (which are part of the Sports Direct group).

A member of the Sports Direct group, West Coast Capital (HOF CO) Limited ('WCC'), holds an 11% shareholding in House of Fraser (UK & Ireland) Limited. However, it was concluded that the Sports Direct Group is not connected to the Company by virtue of this shareholding.

We are not aware of any directors, former directors or associates of the Company who are involved in the financing, management or ownership of the purchaser.

The transaction also impacts on HOF L and HOF S, which entered Administration on 10 August 2018. The creditors of HOF L and HOF S have been written to under separate cover.

We are not aware of any guarantees given by the directors for amounts due from the Company to a prior financier, or that a prior financier is financing the new business.



The assets

The assets sold across all three entities included in the transaction (HOFL, HOFS and the Company), to the extent they had right, title and interest, comprised the following:

| Description of asset | Purchase consideration (€) |
|---|-------------------------------|
| Business Intellectual Property | 1,500,000 |
| Claims | 1 |
| Concession Agreements and other contracts | 2 |
| Customer Information | 1 |
| Equipment | 3,000,000 |
| Goodwill | 1 |
| Information Technology | 500,000 |
| Property | 1 |
| Shares | 1 |
| Stock | 84,999,992 |
| Vehicles | 1 |
| Total | 90,000,000 |

The transaction is in respect of the business and assets of HOFL, HOFS and the Company.

Please note that the Group's trading store in the Republic of Ireland, located at Dundrum, was excluded from the sale pending the resolution of local regulatory matters. The store is continuing to trade with a view to completing a transfer to the purchaser in due course.



Sale consideration

As previously stated, the total sale consideration was £90 million. All of the total consideration of £90 million was paid on completion.

The sale proceeds have been allocated as follows:

| Category of asset | Allocated to HOFL (£) | Allocated to HOFS (£) | Allocated to the Company (£) | Total consideration (£) |
|--|-----------------------------|-----------------------------|------------------------------------|-------------------------------|
| Business intellectual property | - | 1,500,000 | - | 1,500,000 |
| Claims | - | 1 | - | 1 |
| Concession agreements and other contracts | - | 2 | - | 2 |
| Customer information | - | 1 | - | 1 |
| Equipment | - | 2,889,138 | 110,862 | 3,000,000 |
| Goodwill | - | 1 | - | 1 |
| Information technology | - | 481,523 | 18,477 | 500,000 |
| Property | - | 1 | - | 1 |
| Shares | - | 1 | - | 1 |
| Stock | - | 84,479,052 | 520,940 | 84,999,992 |
| Vehicles | - | 1 | - | 1 |
| Total | - | 89,349,721 | 650,279 | 90,000,000 |

Other than for the Business Intellectual Property, Shares and the Property, the consideration has been allocated to the floating charge in accordance with the existing registered charges

Significant assets not included in the sale agreement

The assets which we are aware of, excluded from the transaction include:

- rent prepayments (to be recovered from the purchaser as appropriate);
- any business rates refunds due to the Company;
- cash in the Company's bank accounts at the date of appointment;
- cash in transit at the date of appointment; and
- any other trading debtors & prepayments.

These potential assets will be investigated further as the Administration progresses, and a further update will be provided in our first progress report to creditors.



Administrators' proposals and remuneration

In accordance with paragraph 49(5) of schedule B1 to the Insolvency Act 1986, we shall be preparing proposals within eight weeks of our appointment. The proposals will be made available to all creditors and will give an indication of the likely dividend prospects. At this time, we will also set out our proposals for remuneration.

The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Insolvency (England and Wales) Rules 2016 ('the Rules'). Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the web site of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides>, or is available in hard copy upon written request to the Joint Administrators.

Creditors' claims

Please note that debts incurred by the Company before our appointment will rank as unsecured claims against the Company. Any sums due to the Company arising after our appointment must be paid in full and without set-off against any debts incurred by the Company prior to our appointment.

The directors are required to submit a statement of affairs to us and you will appreciate that the full financial position is not yet known. Please send me a detailed statement of any sums due to you from the Company.

Certain debts due from the company may be preferential in accordance with section 386 of the Insolvency Act 1986. If you consider that you have a claim in this category, please advise me immediately. If you hold any security for your claim or you consider that you have title to any assets in the company's possession, please forward details to me as soon as possible.

You may be entitled to VAT bad debt relief on debts arising from supplies more than six months old. This procedure does not involve the Administrators and claims should be made directly to HM Revenue and Customs.

Opting out

Under the provisions of Rule 1.39 of the Rules, creditors have the right to elect to opt out of receiving further documents relating to the Administration.

If you do elect to opt out you will still receive the following documents:

- any which the Insolvency Act requires to be delivered without expressly excluding opted-out creditors;
- notice relating to a change in the administrators, or their contact details;
- notice of dividend or proposed dividend; or
- a notice which the court orders to be sent to all creditors, or all creditors the particular category to which you belong.



Any election to opt-out will not affect your entitlement to receive dividends, if any are paid.

Unless the Rules provide to the contrary, opting-out will not affect your rights to vote in a decision procedure or participate in a deemed consent procedure, although you would not receive notice of such procedures.

Any opted-out creditors will be treated as opted out in respect of any consecutive insolvency procedure which might follow the Administration.

You may opt-out by delivering an authenticated (e.g. signed) and dated notice to me stating that you are electing to be an opted-out creditor in relation to this Administration. You may at any time revoke this election by delivering to me an authenticated and dated notice stating that you no longer wish to be an opted-out creditor.

Other matters

If there are any matters concerning the Company's affairs which you consider may require investigation and consequently should be brought to our attention, please forward the details to me in writing as soon as possible.

If you have any queries please do not hesitate to contact my colleague, Joanie Snyman, on the above contact details.

Yours faithfully
for the Company

A handwritten signature in black ink, appearing to read 'R H Kelly', with a stylized flourish at the end.

R H Kelly
Joint Administrator

Enc Notice of Administrators' Appointment

The affairs, business and property of the Company are being managed by the Joint Administrators, A M Hudson, C P Dempster, C A Lewis and R H Kelly, who act as agents of the Company only and without personal liability.

A M Hudson is licensed in the United Kingdom to act as an insolvency practitioner by The Association of Chartered Certified Accountants. C P Dempster and R H Kelly are licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants of Scotland. C A Lewis is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in England and Wales.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

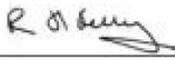
Notice of Administrators' Appointment – paragraph 46(3) of Schedule B1 to the Insolvency Act 1986

James Beattie Limited (in Administration) ('the Company')

| | |
|---|---|
| Name of Court | The High Court of Justice, Chancery Division, Business and Property Courts of England and Wales |
| Court reference number | 6625 of 2018 |
| Company registered number: | 00176533 |
| Nature of business | Other retail sale in non-specialised stores |
| Registered office of Company | 27 Baker Street, London, W1U 8AH |
| Principal trading address (if different from above) | N/A |
| Any other name under which the Company was registered in the previous 12 months | N/A |
| Any other name(s) or style(s) under which the Company carried on business or incurred debts | N/A |
| Date of appointment of Administrators | 10 August 2018 |
| Names and addresses of Administrators | Alan Michael Hudson Robert Hunter Kelly Craig Anthony Lewis Colin Peter Dempster 1 More London Place, London SE1 2AF, United Kingdom |
| Joint / Administrator(s) IP No(s) | Alan Michael Hudson - 9200 Robert Hunter Kelly - 8582 Craig Anthony Lewis - 9356 Colin Peter Dempster - 8908 |
| Telephone number | +44 (0)207 760 9217 |
| Name of alternative person to contact with enquiries about the case | Joanie Snyman |

Notice to all creditors

On 10 August 2018 the Company entered Administration and Alan Michael Hudson, Craig Anthony Lewis, Colin Peter Dempster and I were appointed to act as Joint Administrators. The appointment was made by the Court under the provisions of paragraph 12 of Schedule B1 to the Insolvency Act 1986.

Signed 
Robert Hunter Kelly, Joint Administrator

Date 10 August 2018

The affairs, business and property of the Company are being managed by the Joint Administrators, A M Hudson, C P Dempster, C A Lewis and R H Kelly, who act as agents of the Company only and without personal liability.

A M Hudson is licensed in the United Kingdom to act as an insolvency practitioner by The Association of Chartered Certified Accountants. C P Dempster and R H Kelly are licensed in the United Kingdom to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland. C A Lewis is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in England and Wales.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix C Joint Administrators' receipts and payments account for the period from 10 August 2018 to 15 August 2018

| Estimated to realise as per Directors' Statement of Affairs (£) | <i>Notes</i> | | £ |
|---|--------------|-------------------------|-------------------|
| n/a | 1 | | |
| | 2 | Receipts | |
| | | Stock | 520,939.69 |
| | | Equipment | 110,862.26 |
| | | Information Technology | 18,477.04 |
| | | Property | 0.01 |
| | | Total receipts | 650,279.00 |
| | 2 | Payments | |
| | | Total payments | - |
| | 3 | Balances in hand | 650,279.00 |

Notes

- 1) Directors' Statement of Affairs not yet available
- 2) Receipts and payments are shown net of VAT
- 3) All funds are held in interest bearing accounts

Appendix D Estimate of the Company's financial position

An estimate of the financial position of the Company as at 23 June 2018, being the latest financial information available at this time, is provided below. This information is based on the book values within the Company's records.

These are not the estimated to realise values.

| | £m |
|-----------------------------------|---------------|
| Assets | |
| Tangible assets | |
| Property, plant & equipment | 6.6 |
| Current assets | |
| Inventory | 0.6 |
| Trade and other receivables | 1.0 |
| Total | 8.2 |
| Liabilities | |
| Current liabilities | |
| Trade and other payables | (39.8) |
| Total | (39.8) |
| Net assets / (liabilities) | (31.6) |

Company's creditors

A current list of the Company's creditors including, as far as it is currently known, their names, addresses, amounts owed and details of any security held is provided below.

This information is based on the Company's books and records available to us and will be subject to change as the Company's books and records are updated for transactions not yet posted.

| Creditor name | Creditor address | Security held | Total | Currency |
|---|--|-----------------|-------------------|----------|
| Various secured creditors | c/o HSBC Corporate Trustee Company (UK) Limited, Corporate Trust and Loan Agency, HSBC Securities Services, 8 Canada Square, London, E14 5HQ | Floating charge | c. 400,000,000.00 | GBP |
| House of Fraser (Stores) Limited | c/o Ernst & Young LLP 1 More London Place London SE1 2AF | - | 32,726,532.45 | GBP |
| House of Fraser (UK & Ireland) Acquisitions Limited | 27 Baker Street London W1U 8AH | - | 6,451,185.82 | GBP |
| House of Fraser Limited | c/o Ernst & Young LLP 1 More London Place London SE1 2AF | - | 155,264.56 | GBP |

Appendix E Statement of pre-Administration costs

| | Administrator | | Other IP | | Details |
|--|------------------|--------------|------------------|--------------|--|
| | Remuneration (£) | Expenses (£) | Remuneration (£) | Expenses (£) | |
| Time costs | 7,551 | nil | nil | nil | Incurring by the Joint Administrators, as outlined at Section 6 of these proposals |
| Total costs incurred | 7,551 | nil | nil | nil | |
| Paid before the Administration: | | | | | |
| Time costs | (nil) | (nil) | (nil) | (nil) | |
| Unpaid pre-administration costs | 7,551 | nil | nil | nil | |

Notes

Unpaid pre-Administration costs are costs which had not been paid at the date of Administration and are subject to approval under Rule 3.52 of the Rules.

Unpaid pre-Administration costs are not part of the proposals subject to approval under paragraph 53 of Schedule B1 of the Act. This means that they must be approved separately from the proposals. Further information on the way in which approval will be sought for unpaid pre-Administration costs is set out in section 6 of these proposals.