

IN THE MATTER OF THE INSOLVENCY ACT 1986



Application Notice

MUJI EUROPE HOLDINGS LIMITED
(IN ADMINISTRATION)

Company number: 05997094

In the High Court of Justice Business
and Property Courts of England and
Wales
Insolvency and Companies List
ChD

Court case number: CR-2024-
001928

**Between
Applicant**

(1) Simon Jamie Edel (2)
Alexander Paul Williams
(as joint administrators of
Muji Europe Holdings
Limited (in administration))

**and
Respondent**

Muji Europe Holdings
Limited (in administration)

IN THE MATTER OF MUJI EUROPE HOLDINGS LIMITED (IN
ADMINISTRATION)

We, SIMON JAMIE EDEL and ALEXANDER PAUL WILLIAMS as JOINT
ADMINISTRATORS OF MUJI EUROPE HOLDINGS LIMITED (IN
ADMINISTRATION)

Intend to apply to the Insolvency and Companies Court Judge on:

Date

Time

hours

Place

For an order that:

1. The Joint Administrators of the Company be permitted to make a distribution to the Company's unsecured creditors pursuant to paragraph 65 of Schedule B1 to the Insolvency Act 1986.
2. Such other directions as the court sees fit.
3. The costs of this application be paid as an expense of the administration of the Company.

It is not intended to serve any person with this application.

The Applicant's address for service is:

Simmons & Simmons LLP
CityPoint
1 Ropemaker Street
London
EC2Y 9SS

Date: 30 July 2024

Signed: 

SOLICITOR FOR THE APPLICANT

If you do not attend, the court may make such order as it thinks just.

Case No: CR-2024-001928

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INSOLVENCY AND COMPANIES LIST (CH D)

IN THE MATTER OF MUJI EUROPE HOLDINGS LIMITED (IN ADMINISTRATION)
AND IN THE MATTER OF THE INSOLVENCY ACT 1986
AND IN THE MATTER OF THE INSOLVENCY (ENGLAND & WALES) RULES 2016

WITNESS STATEMENT OF SIMON JAMIE EDEL

I, **SIMON JAMIE EDEL**, of Ernst & Young LLP, 1 More London Place, London SE1 2AF, will say as follows:

A. Introduction

1. I am a licensed insolvency practitioner and partner at Ernst & Young LLP (“**EY**”), a professional services firm of the above address. I was appointed as joint administrator of Muji Europe Holdings Limited (in administration) registered in England and Wales with company number 05997094 (the “**Company**”) on 8 April 2024. Alexander Paul Williams, a licensed insolvency practitioner and partner at EY, is the other joint administrator of the Company (together, the “**Joint Administrators**”). I am authorised to make this statement on behalf of the Joint Administrators.
2. I make this witness statement in support of the following:
 - a) an application pursuant to paragraph 65 of Schedule B1 to the Insolvency Act 1986 (“**Schedule B1**”), for an order allowing the Joint Administrators to make a distribution in the approximate sum of between £17,000,000 and £18,000,000 to the Company’s unsecured creditors (the “**Distribution**”);

- b) that the costs of and incidental to this application be paid as an expense of the administration; and
- c) such further or other order that the Court thinks fit.

3. The facts and matters set out in this statement are within my own knowledge unless otherwise stated, and I believe them to be true. Where I refer to information supplied by others, I identify the source of the information; facts and matters derived from other sources are true to the best of my knowledge and belief.

4. There is now produced and shown to me a paginated bundle of true copy documents marked "**SJE1**". References to documents in this witness statement are to Exhibit SJE1 unless otherwise stated (references are in the form of SJE1/[page number]).

B. Background

5. The Company was incorporated on 13 November 2006 by way of a joint partnership between Ryohin Keikaku Co.,Ltd ("RKJ") and Mitsubishi Corporation ("MC"). It was the holding company for a group of companies operating under the "MUJI" brand. The Company's registered office was Bedford House, 21a John Street, London WC1N 2BF.

6. The Company owned 10 operating subsidiaries which were incorporated in England and Wales, France, Italy, Germany, Spain, Portugal, Sweden, Switzerland, Finland and Denmark (the "**European Subsidiaries**"). The European Subsidiaries operated 32 retail stores and e-commerce channels. The Company also had franchise agreements with entities in Ireland and Poland.

7. The Company provided the central management function of the European Subsidiaries. The Company was also responsible for purchasing stock from RKJ for onward sale to the European Subsidiaries.

8. The Company also leased the European office headquarters, a leasehold property known as Bedford House, 21a John Street, London, WC1N 2BF (the "**Leasehold Property**") and a warehouse located in the Netherlands to store stock.

9. The Company employed 43 members of staff.

10. RKJ, as the sole owner of the “MUJI” trademarks, brand and intellectual property, provided the Company with an exclusive brand licence agreement to operate the MUJI brand and distribute MUJI-branded products (the “**Licence Agreement**”).

Events leading up to administration

11. The Company was financed by way of shareholder loans from both RKJ and MC.
12. During 2020, the Company was adversely impacted by the COVID-19 pandemic and resulting lockdowns. This led to RKJ having to extend further credit facilities to the Company, and to defer payment for stock received, increasing the intercompany liability owed by the Company to RKJ. At the date of the Company entering administration, the total balance due from the Company to RKJ for the purchase of stock was circa. £39,000,000.
13. COVID-19 also led to the Company significantly increasing its borrowings from RKJ and MC by approximately €26,400,000.
14. The due dates for repayment of the shareholder loans were 29 September 2023, January 2024 and March 2024. The Company did not have sufficient liquidity to repay the shareholder loans on time and in full, and therefore the shareholder loan repayments were not made.
15. Due to the Company’s financial difficulties, on 27 November 2023, EY was engaged to carry out contingency planning for the Company.
16. As the Company’s financial difficulties had still not improved, in January 2024 an informal standstill was entered into between the Company, RKJ and MC (the “**Informal Standstill Agreement**”). The Informal Standstill Agreement was made to allow the Company to continue trading whilst facilitating shareholder discussions towards a resolution of the monies due. During this period, it was the Company’s view that a consensual solution might be found between RKJ and MC and, in the absence of such a resolution, that RKJ would seek to bid to continue the business.
17. Also in January 2024, RKJ wrote to the Company stating that it would not be willing to consent to an assignment of the Licence Agreement to a new purchaser, or grant any form of new licence to a third party unknown to them. Therefore, a sale of the business to RKJ (or an associate of RKJ) via a pre-pack transaction was

considered to be the only viable option available to preserve the value of the Company's business.

18. The Company was ultimately unable to renegotiate its obligations and with the Informal Standstill Agreement due to expire on 31 March 2024, the directors of the Company decided to file a notice of intention to appoint administrators on 27 March 2024 (the "**NOI**"). A copy of the NOI is at **SJE1/1 - 6**.
19. The directors then filed a Notice of Appointment of Administrators on 8 April 2024 (the "**NOA**"). Together with Mr Williams, I was appointed as administrator of the Company on 8 April 2024 pursuant to paragraph 22 of Schedule B1. A copy of the NOA is at **SJE1/7 - 18**.

C. Conduct of the administration to date

20. The purpose of the administration is 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). I refer the Court to **SJE1/19 - 66**, which is a copy of the proposals that I sent to the creditors of the Company on 12 April 2024 (the "**Proposals**"), in accordance with paragraph 49 of Schedule B1 and rule 3.35 of the Insolvency (England and Wales) Rules 2016.
21. I refer the Court to **SJE1/27**, which details the progress made with the administration from 8 April 2024 to 12 April 2024, the key activity being the pre-packaged sale of the Company's business and certain assets to Muji Europe Limited (a wholly owned subsidiary of RKJ) for a total consideration of £18,392,528, including £10,392,528 of cash held in the European Subsidiaries, the value of which was attributed to the overall consideration on a pound for pound basis (the "**Pre-Pack Sale**").
22. I refer the Court to **SJE1/42 - 57** for a detailed explanation of the Pre-Pack Sale, in accordance with the Statement of Insolvency Practice 16 ("**SIP 16**"). The evaluator report is at **SJE1/58 - 66**.
23. In summary of the Pre-Pack Sale:

- a) the assets of the Company that were sold included: fixed and moveable assets; business information; commercial records; owned intellectual property; stock; goodwill; contracts; and shares in the European Subsidiaries;
- b) the Company's cash and cash in transit were excluded from the Pre-Pack Sale as were certain business claims arising prior to completion, certain contracts including franchise agreements, stock for which title had not transferred to the Company, certain receivables, certain trade debtors and any third-party assets; and
- c) the intercompany debts due to the Company from the European Subsidiaries purchased by Muji Europe Limited (the "**Purchaser**") were released (with value attributed in the transaction price).

24. A licence to occupy was granted by the Joint Administrators to the Purchaser (the "**LTO**") relating to the Leasehold Property.

25. Aside from the Pre-Pack Sale, since our appointment, Mr Williams and I have carried out, amongst other things, the following key steps in order to further the purpose of the administration:

- a) dealing with post-Pre-Pack Sale matters including managing licence fee payments for the LTO and assignment of IT records and systems;
- b) ensuring that any obligations of the Company and/or the Joint Administrators in the Pre-Pack Sale are satisfied;
- c) realising value from assets not included in the sale;
- d) investigating the extent of any other assets held by the Company and, if applicable, realising such assets;
- e) dealing with employee related matters including enquiries regarding the TUPE transfer;
- f) dealing with creditor enquiries;
- g) considering the conduct of the Company's directors and preparing and filing reports;

- h) reviewing and dealing with the Company's tax affairs;
- i) considering unsecured creditor claims (noting that the formal adjudication process has not yet begun); and
- j) drafting and filing of the Joint Administrators' proposals and the SIP 16 letter.

Realisation of assets

- 26. As of 11 July 2024, the Joint Administrators have realised assets amounting to £18,828,696.06. I refer the Court to **SJE1/75** for a full breakdown of all realised assets.
- 27. As of 11 July 2024, the Joint Administrators are still to realise the following assets:
 - a) trade debtors in the sum of £43,298.79, relating to monies owed to the Company from one of its former franchisees, Muji Ireland; and
 - b) bank interest. The Joint Administrators are holding the funds received to-date in interest bearing accounts. As at 11 July 2024, £101,262.54 has been accrued. It is estimated that the amount to be realised will be between £250,000 to £380,000; the final figure will depend upon the timing of the Distribution being made and the exit from administration being achieved.
- 28. I refer the Court to **SJE1/77** for further detail of the assets yet to be realised.
- 29. The majority of realisations have been completed, but the realisation of the trade debtors and bank account, outlined at paragraph 27 above, are still to be achieved.
- 30. The Joint Administrators confirm that £0.00 (nil) is due to secured creditors. At the date of the appointment of the Joint Administrators, Barclays Bank Plc held security over the Company in the form of a debenture and guarantee dated 5 February 2007 (the "**Security**"), but nothing was owed to them. On 15 May 2024, the Security was released. A copy of the statement of satisfaction in full of the Security is at **SJE1/78**.
- 31. The Joint Administrators confirm that £0.00 (nil) is due to preferential creditors.
- 32. The Joint Administrators confirm that £0.00 (nil) is due to secondary preferential creditors

33. The Joint Administrators confirm that as of 11 July 2024, approximately £74,492,879.93 is due to unsecured creditors (the “**Unsecured Sum**”). The figure will not be finalised until the Joint Administrators have advertised for claims and a formal adjudication process has been completed.
34. The Unsecured Sum may change due to the Company’s previous tax advisors making a voluntary disclosure to His Majesty Revenue and Customers (“**HMRC**”) to “correct” previous transfer pricing errors for the financial years 2017 to 2020, without having made any fact validation or value chain analysis (the “**Initial Disclosure**”).
35. Since the Initial Disclosure, the Company and RKJ instructed EY to undertake a value chain analysis based on fact validation calls and, due to its findings, the Company submitted to HMRC a disclosure letter stating that there is no overstatement of the losses or profit within the Company’s filed tax returns for the periods in question (the “**Disclosure Letter**”). A copy of the Disclosure Letter is at **SJE1/79 - 102**.
36. In early March, HMRC requested further information of the Company, which was duly provided.
37. HMRC provided a further update on 23 April 2024 confirming they would be in touch with a formal response shortly. No such response has yet been received.
38. The Joint Administrators are therefore unable to give a firm estimate of the potential additional tax liability that HMRC may impose on the Company but the best estimate suggests a worst case scenario of approximately £1,000,000, plus interest and potential penalties (the “**Potential HMRC Liability**”). However, if HMRC is satisfied with the information most recently provided to it, the liability may be nil.
39. The Joint Administrators believe that the Company’s creditors will not be paid in full. The difference between the amount owed to all of the Company’s creditors, and the amount they will likely receive, is estimated to be between £55,000,000 to £60,000,000. I refer the Court to **SJE1/68** for further detail of the Company’s creditors.

Remuneration and expenses

40. The Joint Administrators remuneration is fixed on the basis of time properly given by them and their staff in dealing with matters arising in the administration of the Company.
41. As of 7 June 2024, the Joint Administrators have incurred costs of £422,957.00 excluding VAT. This can be further split out as follows:
 - a) pre-appointment costs of £140,820.60; and
 - b) post-appointment costs of £282,136.40.

42. As of 7 June 2024, the Joint Administrators have billed £422,957.00.

43. As of 7 June 2024, the Joint Administrators have incurred disbursements in the sum of £220.28. This relates to payments to independent third parties where there is expenditure directly referable to the administration.

D. The need to make a distribution to unsecured creditors

44. The Company has no secured or preferential debts that remain unpaid; the only class of creditors that remain unpaid are unsecured. Therefore, making the Distribution would not adversely affect any class of creditor.
45. The making of the Distribution is consistent with the Proposals. I refer the Court to **SJE1/29**, where the Proposals state that one of the tasks of the administration will be to make "*an application to Court to seek leave to distribute funds to unsecured creditors and carry out such distribution(s) as required*".
46. If permission to make the Distribution is not granted, the Joint Administrators would need to place the Company into Creditors' Voluntary Liquidation, to allow for monies to be returned to the unsecured creditors. This would incur further costs which would in turn diminish the amount available to distribute to unsecured creditors.
47. In view of the above, the Joint Administrators consider that the proposed Distribution would be in the interests of the Company's creditors as a whole, and

making the Distribution is consistent with the Joint Administrators' functions and duties.

48. As explained above, the Distribution is estimated to be between £17,000,000 and £18,000,000. The reason why I cannot place a precise number on the Distribution at this stage is because: (i) there is inherent uncertainty as to amount of expenses and officeholder remuneration that will be incurred between now and the Distribution; (ii) there are a limited number of assets still to be realised; and (iii) there remains inherent uncertainty as to the total quantum and amount of claims yet to be received from unsecured creditors, including the potential claim that may be submitted by HMRC as described in paragraphs 34-38 above.
49. We propose to approach the Distribution in the following way:
 - a) The Joint Administrators have issued a notice of appointment (which includes details surrounding the process for submitting a claim into the administration) via post to all known creditors as at the date of appointment and those disclosed in the Directors' Statement of Affairs dated 29 May 2024.
 - b) The Joint Administrators are currently in the process of adjudicating claims received to date.
 - c) In advance of making a distribution, the Joint Administrators will issue a notice of intention to distribute pursuant to rule 14.28 providing creditors (including HMRC in relation to the Potential HMRC Liability) with a further opportunity to submit claims, and a deadline by which such claims must be made.
 - d) When making a distribution, the Joint Administrators will make provision for the pro rata estimated amount of any unsettled claims as required.
50. Once this application is issued, we intend to place a notice on both the website of EY (https://www.ey.com/en_uk/muji-europe-holdings-limited) and the informing creditors of this application and providing copies of the application notice and this statement. We will invite creditors to contact our solicitors in the event that they wish to express any view (either for or against) the proposed Distribution. My solicitors tell me that they will collate any responses so that they are available for the judge hearing this application.

E. Exit route

51. Once the Distribution has been made, I envisage that Joint Administrators will seek to exit the administration as soon as is reasonably practicable.
52. If the Company has no further property to distribute, the Joint Administrators will send a notice to that effect to the Registrar of Companies, pursuant to paragraph 84 of Schedule B1 (the “**Notice**”). On registration of the Notice, the appointment of the Joint Administrators will end and, pursuant to paragraph 84(5) of Schedule B1, the Company will be deemed to be dissolved three months after registration of the Notice (“**Exit Route 1**”).
53. If there are matters to be dealt with that require the appointment of a liquidator, the Joint Administrators propose that, at the end of the term of the administration, the Joint Administrators will send a notice to that effect to the Registrar of Companies, pursuant to paragraph 83 of Schedule B1, resulting in the Company entering into Creditors’ Voluntary Liquidation. If this route is taken, the Joint Administrators propose to be the liquidators of the Company, subject to creditors nominating a different person as the proposed liquidator, pursuant to paragraph 83(7) of Schedule B1 (“**Exit Route 2**”).
54. The Joint Administrators consider that if the Distribution is permitted and made, Exit Route 1 would be the most likely exit of the administration.

F. Conclusion

55. In the circumstances and for the reasons set out in this witness statement, I respectfully ask the Court to make the order sought.

STATEMENT OF TRUTH

I believe that the facts stated in this witness statement are true. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed: 

Name: **SIMON JAMIE EDEL**

Date: **29/7/2024**